PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) Accrual concept implies accounting on cash basis.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) Finished goods are normally valued at cost or market price whichever is higher.

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

   (h) Partners can share profits or losses in their capital ratio, when there is no agreement.

   (i) Receipts and Payments Account highlights total income and expenditure.

   (j) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

   (k) Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.

   (b) Define revenue receipts and give examples. How are these receipts treated? Explain.

   (c) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) Prepare Journal Entries for the following transactions in the books of Gamma Bros.

   (i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

   (ii) Wages paid for erection of Machinery ₹ 8,000.

(iii) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment.

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	

28	Withdrew cash from Bank for Office use	2,000
30	Paid rent by cheque	800

Rectification of errors

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

Bank Reconciliation Statement

5. The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

(ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

Inventories

6. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

   Stock taking for the year ended 31st March, 2017 was completed by 10th April, 2017, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2017.

   You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2017.

Concept and Accounting of Depreciation

7. The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and ₹ 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 ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

   You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

Bill of exchange

8. Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

   On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

   Prepare Journal Entries in the books of Mr. A

Consignment

9. (a) Mr. A of Assam sent on 18th February, 2017 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the

consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

B sold on 15th March, 2017, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2017, 300 DVD players @ ₹ 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2017.

You are required to prepare the consignment account and B's account in the books of A.

Sales of goods on approval or return basis

(b) X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2017	M/s ABC Co.	10,000	No information till 31.12.2017
12.12.2017	M/s DEF Co	15,000	Returned on 16.12.2017
15.12.2017	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2017
20.12.2017	M/s DEF Co	16,000	Goods Retained on 24.12.2017
25.12.2017	M/s ABC Co	11,000	Good Retained on 28.12.2017
30.12.2017	M/s GHI Co	13,000	No information till 31.12.2017

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2017.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Joint venture

10. (a) Mr. H and Mr. S entered into a joint venture to buy and sell Computer monitors on 1st August, 2017.

On 1.8.2017 H sent a draft for ₹ 5,00,000 in favour of S and on 5.8.2017 S purchased 250 Monitors at a cost of ₹ 4,000 each. The monitors were sent to Mr. H by Truck under 'freight to pay' for ₹ 8,000 and were cleared by him on 12.08.2017.

H effected sales in the following manner:

Date	Nos. of units	Sale price per unit (₹)	Discount on sales price
13.08.2017	50	4,700	400 per unit
30.09.2017	100	5,000	10%
30.10.2017	100	4,600	5%

On 15.11.2017, Mr. H settled the account by sending a draft in favour of Mr. S. Profits being shared equally. S does not maintain any books. You are required to prepare in H's books:

(i) Joint venture with Mr. S Account; and

(ii) Memorandum Joint Venture Account.

Royalty

(b) A grants a mine on lease to B on 31.3.13 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March,	2014	6,000 tonnes
	2015	6,400 tonnes
	2016	8,000 tonnes
	2017	10,000 tonnes

The minimum rent is fixed at ₹ 14,000 and short-workings recoupment is allowable throughout the period of lease.

You are required to calculate the amount of royalty payable for the years ended 31st March, 2014, 2015, 2016 and 2017.

Average Due Date

11. (a) Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2017	2 months	4,000
10th March, 2017	3 months	3,000
5th April, 2017	2 months	2,000
23rd April, 2017	1 months	3,750
10th May, 2017	2 months	5,000

Account current

(b) Mr. A owed ₹ 4,000 on 1st January, 2016 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2016 Mr. X sold goods to Mr. A	2,230
29 January, 2016 Mr. X bought goods from Mr. A	1,200
10 February, 2016 Mr. A paid cash to Mr. X	1,000
13 March, 2016 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2016.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

Final accounts and Rectification of entries

12 The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	Interest paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.

3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

Partnership Accounts

Profit and Loss Appropriation Account

13. (a) A, B and C entered into partnership on 1.1.2017 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively.

Profits for the year ending 31.12.2017 before providing for interest on partners capital was ₹ 1,59,000.

You re required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

(b) J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Retirement of partner

14 On 31st March, 2017, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000

Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2017, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹10,000.

(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2017.

Financial statements of Not for Profit Organizations

15. Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
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	25,000
	8,00,000		8,00,000

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

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

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 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 ₹ 40,000.

Issue of Shares

16. Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal.

You are required to prepare journal entries to record these transactions.

Forfeiture of Shares

17. Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

    You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

18. Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

    (a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

    (b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

    (c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

    You are required to prepare necessary journal entries Journal Entries.

Basic accounting Ratios

19. From the information given below, calculate (i) Current Ratio and (ii) Debt to Equity Ratio:

    Net Profit of the year ₹ 80,000, Fixed Assets ₹ 2,00,000; Closing Inventory ₹ 10,000; Other Current Assets ₹ 1,00,000; Current Liabilities ₹ 30,000; Share Capital ₹ 1,70,000; 12% Debenture ₹ 60,000.

Short Notes

20. Write short notes on the following:

    (i) Fundamental Accounting Assumptions.

    (ii) Objectives of preparing Trial Balance.

    (iii) Accounting conventions.

    (iv) Machine Hour Rate method of calculating depreciation.

    (v) Trade bill vs. Accommodation bill.

SUGGESTED ANSWERS/HINTS

1. (a) **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) **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.

(c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(e) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **False -** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(i) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(j) **False** - Debenture interest is payable before the payment of any dividend on shares.

(k) **False -** Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

2. (a) (i) Distinction between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

(c) 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.

3. (a) Journal Entries in the books of Gamma Bros.

	Particulars	*Dr.*	*Cr.*
		Amount (₹)	*Amount (₹)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		

(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)		

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **Triple Column Cash Book**

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2017			₹	₹	₹	*2017*			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	*Entry Made Wrongly*
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. **Bank Reconciliation Statement on 31st March, 2017**

				₹
Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of ₹2,156 brought forward as credit balance on 20th March, 2017 in the Cash Book	4,312	
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2017	350	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	200	
	(vii)	Insurance Premium paid directly by bank under standing instructions	756	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	1,530	
	(ix)	Bank recorded short cash deposit	45	2,981
Balance as per Bank Statement				40,876

6. **Statement showing the valuation of stock as on 31st March, 2017**

		₹
A	Value of Stock as on 10th October, 2017	1,67,500
B	*Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2017	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
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
		3,47,00,000			**3,47,00,000**
2017			**2017**		
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
		2,29,75,000			**2,29,75,000**

Working Note:

1. 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
	38,25,000

Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

8. **Journal Entries in the Books of Mr. A**

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2017					
August	1	Bills Receivable A/c	Dr.	10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c	Dr.	9,800	
		Discount A/c	Dr.	200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B	Dr.	10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B	Dr.	240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c	Dr.	2,240	
		Bills Receivable A/c	Dr.	8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c	Dr.	8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			

December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

9. (a) **In the books of A**

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2017			₹	*2017*			₹
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 × ₹ 160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 × ₹ 170)	51,000
Feb. 18	To	B's account		June 30	By	Consignment Stock	
		(Clearance charges)	3,000			(Working note 2)	10,450
June 30	To	B's account:					
		Selling expenses					
		(900 × ₹ 20)	18,000				
		Commission					
		(Working note 1)	24,900				
June 30	To	Profit and loss account (profit on consignment transferred)	10,050				
			1,57,450				1,57,450

B's Account

Dr.							*Cr.*
			Amount				*Amount*
2017			₹	*2017*			₹
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account (Sales)	51,000	June 30	By	Consignment account:	
						Selling expenses	18,000
						Commission	24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. **Calculation of total commission:**

Let total commission be *x*

$$x = 900 \times ₹\,25 + \frac{1}{4}[(₹\,96{,}000 + ₹\,51{,}000) - x - (900 \times ₹\,125)]$$

$$x = ₹\,22{,}500 + \frac{1}{4}[₹\,1{,}47{,}000 - x - ₹\,1{,}12{,}500]$$

$$x = ₹\,22{,}500 + \frac{1}{4}[₹\,34{,}500 - x]$$

$$4x + x = ₹\,90{,}000 + ₹\,34{,}500$$

$$5x = ₹\,1{,}24{,}500$$

$$x = ₹\,24{,}900$$

2. **Valuation of consignment stock:**

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹\,1{,}500 \times 100)}{1{,}000}$	150
Proportionate expenses paid by B $\frac{(₹3{,}000 \times 100)}{1{,}000}$	300
	10,450

(b) **In the books of 'X'**

Goods on sales or return, sold and returned day book

Date 2017	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2017*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2017		*Amount ₹*	2017		*Amount ₹*
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

10. (a) **In the books of H**

Joint Venture with Mr. S Account

Dr. *Cr.*

Date			*Amount ₹*	*Date*			*Amount ₹*
01.08.17	To	Bank account	5,00,000	13.08.17	By	Bank account (sale proceeds)	2,15,000
12.08.17	To	Bank account (Freight)	8,000	30.09.17	By	Bank account (sale proceeds)	4,50,000
15.11.17	To	Profit and loss account		30.10.17	By	Bank account (sale proceeds)	4,37,000
		(share of profit)	47,000				
15.11.17	To	Bank account (draft sent in settlement)	5,47,000				
			11,02,000				11,02,000

Memorandum Joint Venture Account

Dr. *Cr.*

		₹	₹			₹
To	S (250 × ₹ 4,000)		10,00,000	By	H - Sales (net):	
To	H (Freight)		8,000		50 monitors @ ₹ 4,300	2,15,000
To	Profit:				100 monitors @ ₹ 4,500	4,50,000
	H	47,000			100 monitors @ ₹ 4,370	4,37,000
	S	47,000	94,000			
			11,02,000			11,02,000

(b) Statement showing amount of royalty payable

Date	*Output (in tones)*	*Royalty @ ₹ 2 per tone*	*Minimum Rent*	*Short-workings allowable*	*Short-workings recouped*	*Amount payable*
2014	6,000	12,000	14,000	2,000		14,000
2015	6,400	12,800	14,000	1200		14,000
2016	8,000	16,000	14,000		2,000	14,000
2017	10,000	20,000	14,000		1200	18,800

11. (a) Calculation of Average Due Date

(Taking 4th May, 2017 as the base date)

Date of bill	*Term*	*Due date*	*Amount ₹*	*No. of days from the base date i.e. May 4, 2017*	*Product ₹*
2017		2017			
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
23rd April	1 month	26th May	3,750	22	82,500
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,22,500

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4^{th} \text{ May, 2017} + \frac{₹\ 6,22,500}{17,750} = 4^{th} \text{ May, 2017} + 35 \text{ days} = 8^{th} \text{ June, 2017}$$

(b) Mr. A in Account Current with Mr. X

(Interest upto 15th March, 2016 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2016						*2016*					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{₹4,02,600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

12. Rectification Entries

	Particulars		*Dr.*	*Cr.*
			Amount	*Amount*
			₹	₹
(i)	Returns inward account	Dr.	2,575	
	Sales account	Dr.	1,725	
	To Purchases account			2,575
	To Returns outward account			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	3,500	
	To Purchases account			3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	450	

	To Wages account		450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account Dr.	825	
	To Purchases account		825
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. XYZ

for the year ended 31st March, 2017

Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			*Less*: Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		
To	Carriage inward		1,125		$\left(₹\ 80,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			3,36,000				3,36,000
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000	6,000					
	Less: Existing provision	3,200	2,800				
To	Provision for discount on						

	debtors					
	2.5% of ₹ 1,14,000 2,850					
	Less: Existing provision 1,375	1,475				
To	Depreciation:					
	Plant and machinery 3,000					
	Furniture and fittings 1,025	4,025				
To	Office expenses	10,160				
To	Interest on loan	3,000				
To	Net profit					
	(Transferred to capital account)					
		83,800				
		1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2017

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less: Drawings	11,500	1,37,300	*Less*: Depreciation	1,025	9,225
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	*Less*: Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			2,67,250

13. (a) Profit and Loss Appropriation Account

for the year ended 31st December, 2017

Dr. *Cr.*

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000

	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts: [profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A $\left(\frac{5}{10} \text{ of ₹ } 1,25,000\right)$	62,500				
	Less: Transferred to C	5,000	57,500			
	B $\left(\frac{3}{10} \text{ of ₹ } 1,25,000\right)$		37,500			
	C $\left(\frac{2}{10} \text{ of ₹ } 1,25,000\right)$	25,000				
	Add: Transferred from A	5,000	30,000			
			1,59,000			1,59,000

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 1,50,000 \times 100}{20} = ₹\ 7,50,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

14. (a) Revaluation Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
2017				*2017*			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
		Mr. P (2/7) 2,000					
		Mr. Q (3/7) 3,000					
		Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) Partners' Capital Accounts

Dr.									Cr.
Particulars		*P*	*Q*	*R*	*Particulars*		*P*	*Q*	*R*
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) Cash and Bank Account

Particulars		₹	Particulars		₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2017

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

15. **Smith Library Society**

Income and Expenditure Account

for the year ended 31st March, 2018

Dr.					*Cr.*
Expenditure	₹	₹	*Income*		₹
To Electric charges		7,200	By Entrance fee (25% of ₹ 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			10,000	1,90,000
Add: Outstanding	4,000	92,000	*Less*: Received in advance		
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	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				
Books	46,000	66,000	*Add*: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Balance Sheet of Smith Library Society

as on 31st March, 2018

Liabilities	₹	₹	*Asset*	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less*: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	(16,700)	7,98,800	*Less*: Depreciation	(5,000)	45,000
			Books	4,60,000	
Outstanding expenses: Rent	4,000		*Less* Depreciation	(46,000)	4,14,000
			Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in			Accrued interest	500	1,90,500
			Cash at bank		20,000

advance		10,000			
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. Depreciation ₹

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

2. Interest on Securities

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

16. Book of Pihu Limited

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Bank A/c	Dr.		5,00,000	
	To Equity Share Application A/c				5,00,000
	(Money received on applications for 2,00,000 shares @₹ 2.50 per share)				
	Equity Share Application A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)				
	Bank A/c	Dr.		6,00,000	
	To Equity Share Allotment A/c				6,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being first call made due on 2,00,000				

	shares at ₹.2 per share))				
	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c	Dr.		4,50,000	 4,00,000 50,000
	(Being first call money received along with calls in advance on 20,000 shares at ₹2.50 per share)				
	Equity Share Final Call A/c To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹2.50 each)	Dr.		5,00,000	 5,00,000
	Bank A/c Calls in Advance /C Calls in Arrears A/c (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)	Dr. Dr. Dr.		4,45,000 50,000 5,000	 5,00,000
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)	Dr.		1,500	 1,500
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		1,500	 1,500
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		83.34	 83.34
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		5,083.34	 5,000 83.34

17. In the books of Company

Journal

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

18. In the books of Riya Company Ltd.

Journal Entries

Date	***Particulars***		***Dr.*** ₹	***Cr.*** ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000

	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

19. (i) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\,1,10,000}{₹\,30,000} = 11:3 \text{ or } 3.67:1$

Current Assets= Closing Inventory + Other Current Assets

= ₹ 10,000 + ₹ 1,00,000 = ₹ 1,10,000

(ii) Debt to Equity Ratio $= \frac{\text{Long term Debt}}{\text{Sharholders' Equity}}$

$$= \frac{Debentures}{Share\ \text{Capital} + \text{Profit}}$$

$$= \frac{₹\ 60,000}{₹\ 2,50,000} = 0.24:1$$

20. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.
3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

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 date. Thus, the entire ledger is summarized in the form of a Trial Balance. The

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.

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

(v) **Distinction between Trade bill and Accommodation bill**

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.