PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

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

   (i) Prior period items need not be separately disclosed in the current statement of profit and loss.

   (ii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

   (iv) The sale value of by-product is credited to Trading Account.

   (v) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

   (vi) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

   (vii) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

   (viii) "Listed company" means a company which has its securities only listed with National stock exchange.

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

Theoretical Framework

2. (a) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

   (b) Distinguish between Going concern and cost concept.

Journal Entries

3. (a) Pass a journal entries in the following cases.

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 12,000, Land ₹ 24,000, Furniture ₹ 6,000, Stock ₹ 12,000, Creditors ₹ 6,000, Bank Overdraft ₹ 12,000.

   (ii) Goods distributed by way of free samples, ₹ 6,000.

   (iii) Purchase of goods from Naveen of the list price of ₹ 12,000. He allowed 10%

trade discount, ₹ 300 cash discount was also allowed for quick payment.

(iv) Income tax liability of proprietor ₹ 10,200 was paid out of petty cash.

(v) Sumit became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 3,600.

Capital or revenue expenditure

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

(i) Insurance claim received on account of inventory damaged by fire.

(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

(iii) Travelling expenses of the chief financial officer on trips abroad for purchase of special machinery.

(iv) Dividend received from XYZ limited during the year.

Cash book

4. (a) Prepare a Triple Column Cash Book for the month of April 2022 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	9,000
1	Cash at bank	36,000
2	Paid into bank	3,000
5	Bought furniture and issued cheque	4,500
8	Purchased goods for cash	1500
12	Received cash from Ms. Kamini and deposited the same into Bank	2,940
	Discount allowed to her	60
14	Cash sales	15,000
16	Paid to Ms. Shikha by cheque	4,350
	Discount received	150
19	Paid into Bank	1500
20	Sales through Credit Card	4,000
23	Withdrawn from Bank for Private expenses	1,800
24	Received cheque from Ms. Reema	4,290
	Allowed her discount	60

26	Deposited Ms. Reema's cheque into Bank	
28	Withdrew cash from Bank for Office use	6,000
30	Paid rent by cheque	2,400
30	Bank Charged 1% commission on sale through debit/credit card	

Rectification of errors

(b) Mr. Anirudh was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

(i) Purchase account was undercast by ₹ 16,000.

(ii) Sale of goods to Mr. Rahim for ₹ 5,000 was omitted to be recorded.

(iii) Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 6,100.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

Bank Reconciliation Statement

5. On 31st October, 2022, the Cash Book of Mr. Shankar showed an overdrawn position of ₹ 13,440 although his Bank Statement showed only ₹ 9,600 overdrawn. An examination of the two records showed the following errors:

(i) The debit side of the Cash Book was undercast by ₹ 1,200.

(ii) A cheque for ₹ 4,800 in favour of Hari suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

(iii) A cheque for ₹ 561 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 516 but was shown correctly in the Bank Statement.

(iv) A cheque for ₹ 1,275 from Mr. Satpal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

(v) The Bank had debited a cheque for ₹ 450 to Mr. Shankar Account by mistake, it should have been debited by them to Mr. Kar's Account.

(vi) A dividend of ₹ 300 was collected by the bank but not entered in the Cash Book.

(vii) Cheques totalling ₹ 3,900 drawn on October was not presented for payment.

(viii) Cheque for ₹ 3,600 deposited on 30th October was not credited by the Bank.

(ix) Interest amounting to ₹ 900 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 31st October, 2022.

Inventories

6. Raj Ltd. prepared their accounts financial year ended on 31st March 2022. Due to unavoidable circumstances actual stock has been taken on 10th April 2022, when it was ascertained at ₹ 5,00,000. It has been found that;

   (i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

   (ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

   (iii) Sales between 1st April 2022 to 9th April 2022 amounting to ₹ 80,000 as per Sales Day Book.

   (iv) Free samples for business promotion issued during 1st April 2022 to 9th April 2022 amounting to ₹ 16,000 at cost.

   (v) Purchases during 1st April 2022 to 9th April 2022 amounting to ₹ 40,000 but goods amounts to ₹ 8,000 not received till the date of stock taking.

   (vi) Invoices for goods purchased amounting to ₹ 80,000 were entered on 28th March 2022 but the goods were not included in stock.

   Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March, 2022.

Concept and Accounting of Depreciation

7. A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

Bill of exchange

8. Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹ 2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate.

   Pass journal entries (with narration) in the books of Pratika.

Consignment

9. Katen of Pilani consigns 1000 cases of goods costing ₹ 1,500 each to Bharat of Jaipur. Katen pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	30,000
Freight	90,000
Loading Charges	30,000

Bharat sells 700 cases at ₹ 2,100 per case and incurs the following expenses:

Clearing charges	*47,500*
Warehousing and Storage charges	*25,000*
Packing and selling expenses	*7,000*

It is found that 200 cases were lost in transit (which is an abnormal loss) and another 50 cases were in transit. Bharat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Bharat's Account in the books of Katen.

Sales of goods on approval or return basis

10. Anupam supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2022	M/s PQR Co.	20,000	No information till 31.12.2022
12.12.2022	M/s XYZ Co	25,000	Returned on 16.12.2022
15.12.2022	M/s STV Co	22,000	Goods worth ₹ 12,000 returned on 20.12.2022
20.12.2022	M/s XYZ Co	26,000	Goods Retained on 24.12.2022
25.12.2022	M/s PQR Co	21,000	Good Retained on 28.12.2022
30.12.2022	M/s STV Co	23,000	No information till 31.12.2022

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'Anupam' are closed on the 31st December, 2022.

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

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

Goods on sales or return total account.

Average Due Date

11. (a) A accepted the following bills drawn by B.

On 8th March, 2022 ₹ 16,000 for 4 months.

On 16th March, 2022 ₹ 20,000 for 3 months.

On 7th April, 2022 ₹ 24,000 for 5 months.

On 17th May, 2022 ₹ 20,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and A wants to save ₹ 628 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 628.

Account current

(b) From the following particulars prepare an Account Current to be rendered by X to Y at 31st December, reckoning interest @ 10% p.a.

2022		₹	2022		₹
July 1	Balance owing from Y	600	Sept. 01	Y accepted X's Bill at 3 months date	250
July 17	Goods sold to Y	50	Oct.22	Goods bought from Y	30
Aug. 1	Cash received from Y	650	Nov. 12	Goods sold to Y	20
Aug. 19	Goods sold to Y	700	Dec. 14	Cash received from Y	80
Aug. 30	Goods sold to Y	40			
Sept. 1	Cash received from Y	350			

Final accounts

12. The following is the trial balance of Prakesh as at 31st December, 2022:

	Dr.	*Cr.*
	₹	₹
Prakesh's capital account		3,83,450
Stock 1st January, 2022	2,34,000	-
Sales	-	19,48,000
Returns inward	43,000	-
Purchases	16,08,500	-
Returns outward	-	29,000

Carriage inwards	98,000	-
Rent & taxes	23,500	-
Salaries & wages	46,500	-
Sundry debtors	1,20,000	-
Sundry creditors	-	74,000
Bank loan @ 14% p.a.	-	1,00,000
Bank interest	5,500	-
Printing and stationary expenses	72,000	-
Bank balance	40,000	-
Discount earned	-	22,200
Furniture & fittings	25,000	-
Discount allowed	9,000	-
General expenses	57,250	-
Insurance	6,500	-
Postage & telegram expenses	11,650	-
Cash balance	1,900	-
Travelling expenses	4,350	-
Drawings	1,50,000	-
	25,56,650	25,56,650

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 15,000 due from Ravi and included among the creditors ₹ 5,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Prakash amounting to ₹ 3,000 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 2,000 had been omitted from the books.

(8) Stock on 31.12.2022 was ₹ 3,93,000.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2022 and (ii) Balance sheet as on 31st December, 2022.

Partnership Accounts

13. P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 3.03.2022 their capitals were: P Rs. 1,50,000. Q Rs. 1,80,000 and R Rs. 2,10,000. During the year they withdraw Rs. 20,000 each. The profit of the year was Rs. 60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed.

    You are required to pass the necessary adjustment entity for providing interest on capital.

Calculation of goodwill

14. The profits and losses for the previous years are: 2019 Profit ₹ 15,000, 2020 Loss ₹ 25,500, 2021 Profit ₹ 75,000, 2022 Profit ₹ 1,12,500. The average Capital employed in the business is ₹ 3,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 9,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Admission of partner

15 Shyam, Sunder and Girdhar are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities		(₹)	Assets	(₹)
Trade payables		56,250	Land & Buildings	92,500
Outstanding Liabilities		5,500	Furniture & Fixtures	18,000
General Reserve		19,500	Closing stock	31,500
Capital Accounts:			Trade Receivables	26,750
Dinesh	37,500		Cash in hand	7,000
Ramesh	37,500		Cash at Bank	5,500
Naresh	25,000	1,00,000		
		1,81,250		1,81,250

The partners have agreed to take Hari as a partner with effect from 1st April, 2022 on the following items:

(i) Hari shall bring ₹ 20,000 towards his capital.

(ii) The value of stock to be increased to ₹ 35,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Provision for bad and doubtful debts should be provided at 2% of the trade receivables.

(iv) The value of Land & Buildings to be increased by ₹ 14,000 and the value of the goodwill be fixed at ₹ 45,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 1,750 due to Aman which has been paid by Shyam. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Hari.

Financial statements of Not for Profit Organizations

16. A Doctor Ankur after retiring from Govt. service, started private practice on 1st April, 2021 with ₹ 1,50,000 of his own and ₹ 2,25,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	*₹*	*Payments*	*₹*
Own capital	1,50,000	Medicines purchased	1,83,750
Loan	2,25,000	Surgical equipments	1,87,500
Prescription fees	4,95,000	Motor car	2,40,000
Visiting fees	1,87,500	Motor car expenses	90,000
Fees from lectures	18,000	Wages and salaries	78,750
Pension received	2,25,000	Rent of clinic	45,000
		General charges	36,750
		Household expenses	1,35,000
		Household Furniture	18,750
		Expenses on daughter's marriage	1,61,250
		Interest on loan	27,000
		Balance at bank	82,500
		Cash in hand	14,250

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 22,500 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2022 was valued at ₹ 71,250.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2022 and balance sheet as on that date. Ignore depreciation of fixed assets.

Issue of Shares

17. Finopolis Limited is a company with an authorized share capital of ₹ 4,00,00,000 in equity shares of ₹ 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2022. The company proposed to make a further issue of 3,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

    (i) ₹ 2 per share payable on application, to be received by 1st July, 2022;

    (ii) Allotment to be made on 10th July, 2022 and a further ₹ 5 per share (including the premium) to be payable;

    (iii) The final call for the balance to be made, and the money received by 31th March, 2023.

    Applications were received for 8,40,000 shares and were dealt with as follows:

    (1) Applicants for 40,000 shares received allotment in full;

    (2) Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

    (3) Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

    (4) The money due on final call was received on the due date.

    You are required to record these transactions (including cash items) in the journal of Finopolis limited.

Forfeiture of Shares

18. Give necessary journal entries for the forfeiture and re-issue of shares:

    (i) Avtar Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Nitesh for ₹ 8 per share.

    (ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

Issue of Debentures

19. Somya Limited issued 30,000 12% Debentures of the nominal value of ₹15,00,00,00 as follows:

    (a) To sundry persons for cash at 90% of nominal value of ₹ 75,00,000.

(b) To a vendor for purchase of fixed assets worth ₹ 30,00,000 – ₹ 37,50,000 nominal value.

(c) To the banker as collateral security for a loan of ₹ 30,00,000 – ₹ 37,50,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

20. Write short notes on the following:

(i) Accounting conventions.

(ii) Trade bill vs. Accommodation bill.

(iii) Machine Hour Rate method of calculating depreciation

(iv) Journal

(v) Periodic Inventory System Vs Perpetual Inventory System

SUGGESTED ANSWERS/HINTS

1. (i) **False:** Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived

(ii) **True:** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) **False:** The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(v) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(vi) **True:** No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

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

(viii) **False:** As per Section 2 (52) of the Companies Act, 2013,"listed company" means a company which has any of its securities listed on any recognised stock exchange.

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

2. (a) 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.

(b) **Going Concern concept:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, it should be disclosed in the financial statements.

Cost concept: It means that the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity.

3. (a)

S No.	Particulars		Amount (Dr)	Amount (Cr)
(i)	Cash A/c	Dr.	12,000	
	Land A/c	Dr.	24,000	
	Furniture A/c	Dr.	6,000	
	Stock A/c	Dr.	12,000	
	To Creditors			6,000

	To Bank overdraft		12,000
	To Capital A/c		36,000
	(Being commencement of business by mohan by taking over a running business.)		
(ii)	Advertisement Expenses A/c Dr.	6,000	
	To Purchases A/c		6,000
	(Being goods distributed as free samples)		
(iii)	Purchase A/c Dr.	10,800	
	To Cash A/c		10,500
	To Discount Received A/c		300
	(Being the goods purchased from Naveen for ₹ 12,000 @ 10% trade discount and cash discount of ₹ 300)		
(iv)	Drawings A/c Dr.	10,200	
	To Petty Cash A/c		10,200
	(Being the income tax of proprietor paid out of business money)		
(v)	Cash A/c Dr.	1,800	
	Bad Debts A/c Dr.	1,800	
	To Sumit		3,600
	(Being Sumit became insolvent 50 paise in a rupee could be recovered)		

(b) (i) Revenue expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

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

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2022			₹	₹	₹	*2022*			₹	₹	₹
April 1	To	Balance b/d		9,000	36,000	April 2	By	Bank (C)		3,000	
April 2	To	Cash (C)			3,000	April 5	By	Furniture A/c			4,500
April 12	To	Ms. Kamini	60	2,940		April 8	By	Purchase A/c		1500	

April 14	To	Sales A/c		15,000		April 16	By	Ms. Shikha	150		4,350
April 19	To	Cash (C)			1500	April 19	By	Bank (C)		1500	
April 20	To	Sales			4000	April 23	By	Drawings A/c			1800
April 24	To	Ms. Reema (Note 2)	60	4,290		April 26	By	Bank (C)		4,290	
April 26	To	Cash (C)			4,290	April 28	By	Cash (C)			6,000
April 28	To	Bank (C)		6000		April 30	By	Rent A/c			2,400
						April 30	By	Commission			40
						April 30	By	Balance c/d		26,940	29,700
			120	37,230	48,790				150	37,230	48,790
May 1	To	Balance b/d		26,940	29,700						

Note:

(1) Discount allowed and discount received ₹ 120 and ₹ 150 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) Journal Entries in the books of Mr. Anirudh

Date	***Particulars***		***Dr. (₹)***	***Cr. (₹)***
(i)	Profit & Loss Adjustment A/c	Dr.	16,000	
	To Suspense*A/c			16,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	5,000	
	To Profit & Loss Adjustment A/c			5,000
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anubhav's Account	Dr.	1,200	
	To Ashok's Account			1,200
	(Amount received from Ashok wrongly posted to the account of Anubhav now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	6,100	

	To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified)			6,100
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. Paul Account			6,000
	Credit purchase of goods from Mr. Paul sale last year, now rectified)			
(vii)	Anirudh's Capital A/c	Dr.	23,550	
	To Profit and Loss Adjustment Account			23,550
	(Being balance in P & L Adjustment Account transferred to Anirudh's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	16,450	
	To Anirudh's Capital A/c			16,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

**Considering that the difference was posted to Suspense account.*

Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	16,000	By Rahim's A/c	5,000
To Suspense A/c	450	By Anirudh's Capital A/c (Bal. Transfer)	23,550
To Machinery A/c	6,100		
To Mr. Paul's A/c	6,000		
	28,550		28,550

2. Suspense Account

	₹		₹
To Anirudh's Capital A/c	16,450	By P & L Adj. A/c	16,000
(Balance Transfer)		By P & L Adj. A/c	450
	16,450		16,450

5. (a) **Bank Reconciliation Statement as on 31st October, 2022**

Particulars			₹	₹
Bank Overdraft as per Bank Statement				9,600
Add:	(i)	Debit side of the Cash Book was undercast	1,200	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	4,800	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	300	
	(vii)	Cheque issued but yet to be presented for payment	3,900	10,200
				19,800
Less:	(iii)	Cheque issued for ₹ 561 posted in the Cash Book as ₹ 516	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	1,275	
	(v)	Wrong debit by the Bank to Shankar's A/c	450	
	(viii)	Cheque deposited but yet to be credited	3,600	
	(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	900	6,270
Bank overdraft as per the Cash Book (Cr.)				13,530

6. **Statement of Valuation of Physical Stock as on 31st March,2022**

	₹	₹
Value of stock as on 10th April, 2022		5,00,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2022 and 9.4.2022	80,000	
Less: Gross profit @20% on sales	(16,000)	64,000
Free sample		16,000
		5,80,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	40,000	
Less: Goods not received upto 9.4.2022	(8,000)	(32,000)
		5,48,000

Add: Purchases during March, 2022 but not recorded in stock		80,000
Value of physical stock as on 31.3.2022		6,28,000

7. In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – (₹ 1,00,000 × 4) = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

8. In the books of Pratika

Journal Entries

	Particulars		*Dr.* ₹	*Cr.* ₹
01-10-2022	Bills Receivable A/c	Dr.	5,00,000	
	To Priya A/c			5,00,000
	(Being a 3 month's bill drawn on Priya for the amount due)			
03-10-2022	Bank A/c	Dr.	4,95000	
	Discount A/c	Dr.	5,000	
	To Bills Receivable A/c			5,00,000
	(Being the bill discounted)			
04-01-2023	Priya A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the bill cancelled up due to Priya's inability to pay it)			
04-01-2023	Priya A/c	Dr.	6,250	
	To Interest A/c			6,250
	(Being the interest due on ₹ 2,50,000 @ 10% for 3 months)			

04-01-2023	Bank A/c To Priya A/c (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	2,56,250	2,56,250
04-01-2023	Bills Receivable A/c To Priya A/c (Being the new bill drawn for the balance)	Dr.	2,50,000	2,50,000
07-03-2023	Priya A/c To Bills Receivable A/c (Being the dishonour of the bill due to Priya's insolvency)	Dr.	2,50,000	2,50,000
07-03-2023	Bank A/c Bad Debts A/c To Priya A/c (Being the receipt of 60% of the amount due on the bill from Priya's estate)	Dr. Dr.	1,50,000 1,00,000	2,50,000

9. **In the books of Katen**

Consignment to Bharat of Jaipur Account

Particulars	₹	*Particulars*	₹
To Goods sent on Consignment	15,00,000	By Bharat (Sales)	14,70,000
To Bank (Expenses: 30,000+90,000+30,000)	1,50,000	By Goods lost in Transit 200 cases @ ₹ 1,650 each (WN1)	3,30,000
To Bharat (Expenses: 47,500+25,000+7,000)	79,500	By Consignment Inventories: In hand 50 @ ₹ 1,700 each (WN2)	8,50,000
To Bharat (Commission)	1,47,000	By Consignment Inventories:	
To Profit on Consignment ts/f to Profit & Loss A/c	8,56,000	In transit 50 @ ₹ 1,650 each (WN3)	82,500
	27,32,500		27,32,500

Bharat's Account

Particulars	*₹*	*Particulars*	*₹*
To Consignment to Jaipur A/c	14,70,000	By Consignment A/c (Expenses)	79,500
		By Consignment A/c(Commission)	1,47,000
		By Balance c/d	12,43,500
	14,70,000		14,70,000

Working Notes:

1. Consignor's expenses on 1000 cases amounts to ₹ 1,50,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case i.e. 1,500+150.
2. Bharat has incurred ₹ 47,500 on clearing 950 cases, i.e., ₹ 50 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent i.e. 1,500+150+50.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 1,500+150 =1,650.
4. It has been assumed that balance of ₹ 12,43,500 is not yet paid.

10. **In the books of 'Anupam'**

Goods on sales or return, sold and returned day book

Date 2022	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2022*	*Sold ₹*	*Returned ₹*
Dec.10	M/s PQR		20,000	Dec. 25	20,000	-
Dec.12	M/s XYZ		25,000	Dec. 16	-	25,000
Dec.15	M/s STV		22,000	Dec. 20	10,000	12,000
Dec.20	M/s XYZ		26,000	Dec. 24	26,000	-
Dec.25	M/s PQR		21,000	Dec. 28	21,000	-
Dec.30	M/s STV		23,000	-		
			1,37,000		77,000	37,000

Goods on Sales or Return Total Account

2022		Amount ₹	2022		Amount ₹
Dec. 31	To Returns	37,000	Dec. 31	By Goods sent on sales or return	1,37,000
	To Sales	77,000			
	To Balance c/d	23,000			
		1,37,000			1,37,000

11. (a) **Taking 19.6.2022 as a Base date**

Transaction Date	Due Date	Amount	No of days	
8.3.2022	11.7.2022	16,000	22	3,52,000
16.3.2022	19.6.2022	20,000	0	0
7.4.2022	10.9.2022	24,000	83	19,92,000
17.5.2022	20.8.2022	20,000	62	12,40,000
		80,000		35,84,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2022 + ₹ 35,84000/₹80,000

= 19.6.2022 + 44.8 days (or 45 days approximately)

= 3.8.2022

A wants to save interest of ₹ 628. The yearly interest is ₹ 80,000 × 18%

= ₹ 14,400.

Assume that days corresponding to interest of ₹ 628 are Y.

Then, 14,400 × Y/365 = ₹ 628

or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if A wants to save ₹ 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, he should make the payment on 18.7.2022 (3.8.2022 – 16 days)

(b) Y in Account Current with X

(Interest from Due Date to Dec.31, 2022 @ 10% p.a.)

Dr. *Cr.*

Date		Particulars	Due Date	Amount (₹)	Days	Product	Date		Particulars	Due Date	Amount (₹)	Days	Product
July 1	To	Balance b/d	July 1	600	184	1,10,400	Aug. 1	By	Cash A/c	Aug. 1	650	152	98,800
July 17	To	Sales A/c	July 17	50	167	8,350	Sept. 1	By	Cash A/c	Sept. 1	350	121	42,350
Aug. 19	To	Sales A/c	Aug 19	700	134	93,800	Sept. 1	By	Bills Receivable A/c	Dec. 4	250	27	6,750
Aug.30	To	Sales A/c	Aug. 30	40	123	4,920	Oct. 22	By	Purchases A/c	Oct. 22	30	70	2,100
Nov.12	To	Sales A/c	Nov. 12	20	49	980	Dec. 14	By	Cash A/c	Dec. 14	80	17	1,360
Dec.31	To	Interest A/c ₹ (67,090 × 0.1 / 365)		18.38			Dec. 31	By	Balance c/d		68.38		67,090
				1428.38		2,18,450					1428.38		2,18,450

12. Trading and Profit and Loss Account of Mr. Prakash

for the year ended 31st December, 2022

	₹	₹		₹	₹
To Opening stock		2,34,000	By Sales	19,48,000	
To Purchases	16,08,500		*Less:* Returns	43,000	19,05,000
Add: Omitted invoice	2000		By Closing stock		3,93,000
	16,10,500				
Less: Returns	29,000				
	15,81,500				
Less: Drawings	3000	15,78,500			
To Carriage		98,000			
To Gross profit c/d		3,87,500			
		22,98,000			22,98,000
To Rent and taxes		23,500	By Gross profit b/d		3,87,500
To Salaries and wages		46,500	By Discount		22,200
To Bank interest	5,500				
Add: Due	8,500	14,000			

To Printing and stationary	72,000			
Less: Prepaid (1/4)	18,000	54,000		
To Discount allowed		9,000		
To General expenses		57,250		
To Insurance		6,500		
To Postage & telegram expenses		11,650		
To Travelling expenses		4350		
To Provision for bad debts [W.N.(ii)]		5,750		
To Provision for discount on debtors [W.N.(iii)]		2185		
To Depreciation on furniture & fittings		2,500		
To Net profit		1,72,515		
		4,09,700		4,09,700

Balance Sheet of Prakash as at 31st December, 2022

Liabilities	₹	₹	*Assets*	₹	₹
Capital	3,83,450		Furniture & fittings	25,000	
Add: Net profit	1,72,515		*Less:* Depreciation	2,500	22,500
	5,55,965		Sundry debtors (W.N.1)	115,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 1,50,000			& doubtful debts (W.N.2)	5,750	
Goods 3000	1,53,000	4,02,965		1,09,250	
Bank loan		1,00,000	*Less:* Provision for		
Bank interest due		8,500	Discount (W.N.2)	2,185	1,07,065
Sundry creditors (W.N.3)		71,000	Stock		3,93,000
			Prepaid expenses:		
			Printing & stationary		18,000
			Bank balance		40,000
			Cash balance		1900
		5,82,465			5,82,465

Working Notes:

(1) Sundry debtors

Balance as per trial balance	1,20,000
Less: Due to Ravi	5,000
	1,15,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 1,15,000	5,750
Provision for discount:	
2% on ₹ 1,09,250 (1,15,000 -5,750)	2,185

(3) Sundry creditors

Balance as per trial balance	74,000
Less: Set off in respect of Ravi	5,000
	69,000
Add: Purchase invoice omitted	2,000
	71,000

13. Calculation of Capital as on 01.04.2021

Particulars	**P (₹)**	**Q (₹)**	**R (₹)**	**Total**
Closing Capital	1,50,000	1,80,000	2,10,000	5,40,000
Add: Drawings	20,000	20,000	20,000	60,000
Less: Share of Profit	12,000	24,000	24,000	60,000
Capitals as on 01.04.2021	1,58,000	1,76,000	2,06,000	5,40,000

Particulars	**P (₹)**	**Q (₹)**	**R (₹)**	**Total**
Share of profit already credited (A)	12,000	24,000	24,000	60,000
II. Amount which should have been credited:				
Interest on Capital @ 10%	15,800	17,600	20,600	54,000
Share of Profit (out of the balance amount) (60,000 – 54,000)	1,200	2,400	2,400	6,000
(B)	17,000	20,000	23,000	60,000
III. Difference [(A)-(B)]	-5000	4,000	1,000	-

Journal entry

Particulars		L.F.	Dr. (₹)	Cr. (₹)
Q's Capital A/c	Dr.		4,000	
R's Capital A/c	Dr.		1,000	
To P's Capital A/c				5,000
(Being the omission of interest on capital rectified)				

14. Total Profit for 4 years = ₹ 15,000+ ₹ (25,500) +₹ 75,000+₹ 1,12,500= ₹ 1,77,000.

Average profits $= \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{₹1,77,000}{4} = ₹44,250$

Average Profits for Goodwill = ₹ 44,250 – Proprietor Remuneration

= ₹ 44,250 – ₹ 9,000 = ₹ 35,250

Normal Profit = Interest on Capital employed

= ₹ 30,000 (i.e. ₹ 3,00,000 x10/100) = ₹ 30,000

Super Profit = Average Profit-Normal Profit = ₹ 35,250 – ₹ 30,000 = ₹ 5,250

Goodwill = Super Profit x No of years purchases = ₹ 5,250 x 3 =₹ 15,750

15. **Revaluation Account**

2022			₹	2022		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	3,500
	To Furniture and fittings		1,800		By Land and Building	14,000
	To Capital A/cs:					
	(Profit on revaluation transferred)					
	Shyam	7582.5				
	Sundar	5055.00				
	Girdhar	2527.5	15,165			
			17,500			17,500

Partners' Capital Accounts

Particulars	Shyam ₹	Sundar ₹	Girdhar ₹	Hari ₹	Particulars	Shyam ₹	Sundar ₹	Girdhar ₹	Hari ₹
To Shyam & Sundar			3,750	11,250	By Balance b/d	37,500	37,500	25,000	–
					By General Reserve	9,750	6,500	3,250	
To Balance c/d	67,832.5	52,805	27027.5	8,750	By Cash	–	–	–	20,000
					By Girdhar & Hari	11,250	3,750	–	–
					By Outstanding Liabilities (Aman)	1750	–	–	
					By Revaluation A/c	7,582.5	5055	2527.5	-
	67,832.5	52,805	30,775.5	20,000		67,832.5	52,805	30,775.5	20,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Shyam	¼	3/6	6/24	
Sundar	¼	2/6	2/24	
Girdhar	¼	1/6		2/24
Hari	¼			6/24

Entry for goodwill adjustment

Shyam (2/24 of ₹45,000)	Dr.	3,750	
Sundar (6/24 of ₹45,000)	Dr.	11,250	
To Girdhar (6/24 od ₹45,000)			11,250
To Hari (2/24 of ₹45,000)			3,750

Balance Sheet of Shyam, Sundar, Girdhar and Hari as on 1st April,2022

Liabilities ₹	₹	*Assets* ₹	₹
Trade payables	56,250	Land and Buildings	1,06,500
Outstanding Liabilities (5,500-1,750)	3,750	Furniture	16,200
Capital Accounts of Partners:		Inventory of goods	35,000

Mr. Shyam	67,832.50		Trade receivables	26,750	
Mr. Sundar	52,805.00		*Less:* Provisions	(535)	26,215
Mr. Girdhar	27,027.50		Cash in hand		7,000
Mr. Hari	8,750.00	1,56,415	Cash at Bank (5,500+20,000)		25,500
		2,16,415			2,16,415

16. **Income and Expenditure Account**

for the year ended 31st March, 2022

	₹		₹
To Medicines consumed		By Prescription fees	4,95,000
Purchases 1,83,750		By Visiting fees	1,87,500
Less: Closing Stock (71,250)	1,12,500	By Fees from lectures	18,000
To Motor car expense (90,000 x 2/3)	60,000		
To Salaries (₹ 78,750 – ₹ 22,500)	56,250		
To Rent for clinic	45,000		
To General charges	36,750		
To Interest on loan	27,000		
To Excess of Income over expenditure	3,63,000		
	7,00,500		7,00,500

Capital Account
for the year ended 31st March, 2022

	₹		₹
To Drawings:		By Cash/bank	1,50,000
Motor car expenses	30,000	By Cash/bank (pension)	2,25,000
Household expenses	1,35,000	By Net income from practice	3,63,000
Marriage expenses	1,61,250	(derived from income	
To Salary of domestic servants	22,500	and expenditure a/c)	
To Household furniture	18,750		
To Balance c/d	3,70,500		
	7,38,000		7,38,000

Balance Sheet as on 31st March, 2022

Liabilities	₹	*Assets*	₹
Capital	3,70,500	Motor car	2,40,000
Loan	2,25,000	Surgical equipment	1,87,500
		Stock of medicines	71,250
		Cash at bank	82,500
		Cash in hand	14,250
	5,95,500		5,95,500

17. Journal of Finopolis Limited

Date 2022	*Particulars*		*Dr. ₹*	*Cr. ₹*
July 1	Bank A/c (Note 1 – Column 3)	Dr.	16,80,000	
	To Equity Share Application A/c			16,80,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	16,80,000	
	To Equity Share Capital A/c			5,20,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			8,00,000
	To Bank A/c (Note 1–Column 6)			3,60,000
	(Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	13,00,000	
	To Equity Share Capital A/c			7,80,000
	To Securities Premium a/c			5,20,000
	(Being allotment money due on 2,60,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			

	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	5,00,000	5,00,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 2,60,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)	Dr.	13,00,000	13,00,000
March 31st	Bank A/c To Equity Share Final Call A/c (Being final call money on 2,60,000 shares @ ₹ 5 each received)	Dr.	13,00,000	13,00,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
(ii)	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000
(iii)	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	**8,40,000**	**2,60,000**	**16,80,000**	**5,20,000**	**8,00,000**	**3,60,000**	**13,00,000**	**5,00,000**

18. (i) Journal Entries in the books of Avtar Ltd.

Date			***Dr.*** ₹	***Cr.*** ₹
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (900 x ₹ 3) To Equity Share Final Call A/c (900 x ₹ 4)	Dr.	9,000	 2,700 3,600

	To Forfeited Shares A/c (900 x ₹ 3)			2,700
	(Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No…………….dated……………..)			
(b)	Bank A/c (900 x 8)	Dr.	7,200	
	Forfeited Shares A/c (900x 2)	Dr.	1,800	
	To Equity Share Capital A/c			9,000
	(Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No……….dated……………..)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			***Dr.*** ₹	***Cr.*** ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No……… dated………………)			
(b)	Bank A/c	Dr.	900	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No……….dated…………..)			
(c)	Forfeited Shares A/c	Dr.	150	
	To Capital Reserve A/c			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹750
Less: Forfeiture of 150 shares	(₹600)
Profit on re-issue of shares	₹150

19. **In the books of Somya Ltd.**

Journal Entries

Date	*Particulars*		*Dr.* ₹	*Cr.* ₹
(a)	Bank A/c	Dr.	67,50,000	
	To Debentures Application A/c			67,50,000
	(Being the application money received on 15,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	67,50,000	
	Discount on issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			75,00,000
	(Being the issue of 15,000 12% Debentures @ 90% as per Board's Resolution No.…dated….)			
(b)	Fixed Assets A/c	Dr.	30,00,000	
	To Vendor A/c			30,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	30,00,000	
	Discount on Issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			37,50,000
	(Being the issue of debentures of ₹ 37,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	30,00,000	
	To Bank Loan A/c (See Note)			30,00,000
	(Being a loan of ₹ 30,00,000 taken from bank by issuing debentures of ₹37,50,000 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.

20. (i) 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.

(ii) 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.

(iii) 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.

(iv) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

(v)

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.