PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

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

   (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

   (ii) M/s Raj Yog & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 25 to 28. The total expenditure incurred was ₹ 50,000 and was treated as a revenue expenditure.

   (iii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.

   (iv) Depreciation is a non-cash expense and does not result in any cash outflow.

   (v) There are two ways of preparing an account current.

   (vi) The additional commission paid to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (vii) A Partnership firm cannot own any Assets.

   (viii) Goodwill is intangible asset therefore it cannot be valued.

   (ix) Fees received for Life Membership is a revenue receipt as it is of recurring nature.

   (x) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

Theoretical Framework

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

   (b) Differentiate between provision and contingent liability

Journal Entries

3. (a) M/s Puneet & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

   (i) A purchase of ₹ 5,600 from M/s Ajeet & Co. was recorded in the accounts of M/s Amit & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.

   (ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.

(iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of ₹ 90 to M/s Sapna Bros. has been omitted.

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Capital or Revenue Receipt or Expenditure

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

(i) Traveling expenses of the chief executive officer for trips abroad for purchase of capital assets.

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

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

(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:

2022			₹
Sep.	1	Cash in hand	18,000
	1	Cash at bank	72,000
	2	Paid into bank	6,000
	5	Bought furniture and issued cheque	9,000
	8	Purchased goods for cash	3,000
	12	Received cash from Mohan	5,880
		Discount allowed to him	120
	14	Cash sales	30,000
	16	Paid to Amar by cheque	8,700
		Discount received	300
	19	Paid into Bank	3,000
	23	Withdrawn from Bank for Private expenses	3,600

	24	Received cheque from Parul	8,580
		Allowed him discount	120
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	12,000
	30	Paid rent by cheque	4,800

Rectification of Errors

(b) Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹15,000 returned by Mr. X were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹22,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Shiv, who returned the goods;

(3) A sale of ₹60,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 6,000;

(4) Bad Debts aggregating ₹45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of October, 2022 amounting to ₹37,500 was not posted.

Bank Reconciliation Statement

5. On 30th September, 2022, the bank account of Vikrant, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Vikrant. An examination of the Cash Book and Bank Statement reveals the following:

   1. A cheque for ₹ 26,28,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022
   2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
   3. On 29th September, 2022, the bank credited an amount of ₹ 2,34,800 received from a customer of Vikrant, but the advice was not received by Vikrant until 1st October, 2022.
   4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
   5. On 6th September, 2022, the bank credited ₹ 40,000 to Vikrant in error.
   6. A bill of exchange for ₹ 2,80,000 was discounted by Vikrant with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of Vikrant.

7. Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled ₹ 26,52,000.

You are required:

(a) to show the appropriate rectifications required in the Cash Book of Vikrant, to arrive at the correct balance on 30th September, 2022 and

(b) to prepare a bank reconciliation statement as on that date.

Valuation of Inventories

6. Stock taking of ABC Stores for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹ 3,35,000 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 ₹ 13,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 18,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 600 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 2,250 which should be taken at ₹ 1,050 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 3,100 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 ₹ 2,500 on 31st March, 2023.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2023. Closing stock is valued by ABC Stores on generally accepted accounting principles.

Concept and Accounting of Depreciation

7. A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2019 and spent ₹ 3,000 on its overhauling. On 1st July 2020, another machine was purchased for ₹ 10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2022, the machine which was purchased on 1st July, 2020 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2020 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2019.

Bills of Exchange

8. Mr. Y accepted a bill for ₹ 40,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. A got the bill discounted at his bank for ₹ 39,200.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹ 8,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. X

Consignment

9. Rajesh of Noida consigned to Mahesh of Pushkar, goods to be sold at invoice price which represents 125% of cost. Mahesh is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Rajesh were ₹ 15,000. The account sales received by Rajesh shows that Mahesh has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Pushkar godown. Mahesh remitted the balance in favour of Rajesh.

   You are required to prepare consignment account in the books of Rajesh along with the necessary calculations.

Sales of goods on approval or return basis

10. Mr. Kamal sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2022.

    December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ₹2,40,000

    December 10th - Goods returned by customers ₹ 1,05,000

    December 17th - Received letters from customers for approval ₹ 1,05,000

    December 23rd - Goods with customers awaiting approval ₹ 45,000

    Mr. Kamal records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Kamal assuming that the accounting year closes on 31st Dec. 2022.

Average Due Date

11. Two Traders Amit and Sumit buy goods from one another, each allowing the others, one month's credit. At the end of 3 months the accounts rendered are as follows:

	Goods sold by Amit to Sumit (₹)		Goods sold by Sumit to Amit (₹)
April,18	12,000	April, 23	10,600
May, 15	14,000	May, 24	10,000
June, 16	16,000		

Calculate the date upon which the balance should be paid so that no interest is due either to Amit or Sumit.

Account current

12. From the following prepare an account current, as sent by A to B on 31st March, 2023 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount (₹)
2023 January 1	Balance due from B	1,800
January 10	Sold goods to B	1,500
January 15	B returned goods	650
February 12	B paid by cheque	1,000
February 20	B accepted a bill drawn by A for one month	1,500
March 11	Sold goods to B	720
March 14	Received cash from B	800

Final Accounts

13. The following are the balances extracted from the books of Shri Shrinivas as on 31.03.2023, who carries on business under the name and style of M/s Shrinivas and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	

Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	**30,73,400**	**30,73,400**

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Partnership Accounts

Calculation of Goodwill

14. Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Balance Sheet of M/s Ved, Jain & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Ved	2,55,000	Inventory	3,00,000
Jain	9,45,000	Trade receivables	1,50,000
Agrawal	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit ₹ 6,00,000 in 2022 and the partners withdrew ₹ 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Retirement of Partner

15 A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2023 stood as:

Liabilities		₹	Assets		₹
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

B retired on 1st April, 2023 subject to the following conditions:

(i) Office Equipment's revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2019	90,000
2020	1,40,000
2021	1,20,000
2022	1,30,000

(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

Financial Statements of Not for Profit Organizations

16. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Amar Leela Hospital:

Receipts and Payments Account for the year ended 31 December, 2022

	RECEIPTS	₹			PAYMENTS		₹
To	Balance b/d			By	Salaries:		
	Cash	2,400			(₹ 21,600 for 2021)		93,600
	Bank	15,600	18,000	By	Hospital Equipment		51,000
To	Subscriptions:			By	Furniture purchased		18,000
	For 2021		15,300	By	Additions to Building		150,000
	For 2022		73,500	By	Printing and Stationery		7,200
	For 2023		7200				
To	Government Grant:			By	Diet expenses		46,800
	For building		2,40,000	By	Rent and rates		
	For maintenance		60,000		(₹ 900 for 2023)		6,000
	Fees from sundry			By	Electricity and water		
	Patients		14,400		charges		7,200

To	Donations (not to be capitalized)		24,000	By	office expenses		6,000
				By	Investments		60,000
To	Net collections from benefit shows		18,000	By	Balances:		
					Cash	4,200	
					Bank	20,400	24,600
			4,70,400				4,70,400

Additional information:	₹
Value of building under construction as on 31.12.2022	4,20,000
Value of hospital equipment on 31.12.2022	1,53,000
Building Fund as on 1.1. 2022	2,40,000
Subscriptions in arrears as on 31.12.2021	19,500
Investments in 8% Govt. securities were made on 1st July, 2022.	

Issue and Forfeiture of Shares

17. Laxman Prasad Limited registered with an authorised equity capital of ₹ 8,00,000 divided into 8,000 shares of ₹ 100 each, issued for subscription of 4,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 4,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 400 shares held by him and another shareholder with 200 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Issue of Debentures

18. On 1st January 2022 Samar Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

    Pass necessary journal entries for the accounting year 2022.

19. Write **short notes** on the following:

    (i) Rules of posting of journal entries into Ledger.

    (i) Importance of bank reconciliation statement to an industrial unit.

    (iii) Bill of exchange and various parties to it.

    (iv) Fundamental Accounting Assumptions.

    (v) Accounting conventions.

SUGGESTED ANSWERS/HINTS

1. (i) **False:** Goods taken by the proprietor for personal use should be credited to Purchases Account since less goods are left in the business for sale.

   (ii) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, this renovation expense is capital expenditure in nature.

   (iii) **False:** If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission".

   (iv) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow.

   (v) **False:** There are three ways of preparing an Account Current: (i) With help of interest table; (ii) By means of products and (iii) By means of products of balances.

   (vi) **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

   (vii) **True:** A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

   (viii) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

   (ix) **False:** Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund

   (x) **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received towards nominal value on shares forfeited.

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 should 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) Difference between Provision and Contingent liability

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

3. (a) (i) Journal Proper of Puneet & Co.

Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		₹	₹
(i)	M/s Amit & Co. A/c	6,500	
	To M/s Ajeet & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated….as ₹ 6,500 in M/s Amit & Co.'s Account in place of M/s Ajeet & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900

	(Rectification of sale entry for ₹ 9,800 dated ....as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Sapna Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated.... is being rectified).		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications have not done.

(b) (i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Receipt.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

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

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2022			₹	₹	₹	2022			₹	₹	₹
Sep. 1	To	Balance b/d	-	18,000	72,000	Sep. 2	By	Bank (C)	-	6,000	-
Sep. 2	To	Cash (C)	-	–	6,000	Sep. 5	By	Furniture A/c	-	-	9,000
Sep. 12	To	Mohan	120	5,880	0	Sep. 8	By	Purchase A/c	-	3,000	-
Sep. 14	To	Sales A/c	-	30,000	0	Sep. 16	By	Amar	300	-	8,700
Sep. 19	To	Cash (C)	-	-	3000	Sep. 19	By	Bank (C)	-	3,000	-
Sep. 24	To	Parul (Note 2)	120	8,580	0	Sep. 23	By	Drawings A/c	-	-	3,600
Sep. 26	To	Cash (C)	-	-	8,580	Sep. 26	By	Bank (C)	-	8,580	-
Sep. 28	To	Bank (C)	-	12,000	0	Sep. 28	By	Cash (C)	-	-	12,000
						Sep. 30	By	Rent A/c	-	-	4,800
						Sep. 30	By	Balance c/d		53,880	51,480
			240	74,460	89,580				300	74,460	89,580
Oct. 1	To	Balance b/d		53,880	51,480						

Note:

(1) Discount allowed and discount received ₹ 240 and ₹ 300 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)

	Particulars		**L.F.**	**Dr. ₹**	**Cr. ₹**
(1)	Sales Account	Dr.		15,000	
	Sales Returns Account	Dr.		15,000	
	To Suspense Account				30,000
	(The value of goods returned by Mr. X wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		45,000	
	To Mr. Shiv				45,000
	(Wrong debit to Mr. Shiv for goods returned by him, now rectified)				
(3)	Mr. Amit	Dr.		60,000	
	To Mr. Sumit				6,000
	To Suspense Account				54,000
	(Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of ₹ 60,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		37,500	
	To Suspense Account				37,500
	(The total of Discount allowed during October, 2022 not posted from the Cash Book; error now rectified)				

5. (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2022		₹	2022		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(ii) **Bank Reconciliation Statement as on 30th September, 2022**

Particulars	Amount (₹)
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2022	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2022	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Vikrant by 40,000 in error on 6th September, 2022. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

6. **Statement showing the valuation of stock as on 31st March, 2023**

		₹
A	Value of Stock as on 10th April, 2023	3,35,000
B	Add: Cost of sales after 31st March, till stock taking (₹ 13,750 – ₹ 3,438)	10,312
C	Less: Purchases for the next period (net)	16,200
D	Less: Cost of Sales Returns	450
E	Less: Loss on revaluation of slow moving inventories	1200
F	Less: Reduction in value on account of default	600
G	Value of Stock on 31st March, 2023	3,26,862

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

7. **In the books of Firm**

Machinery Account

		₹			₹
1.1.2019	To Bank A/c	37,000	31.12.2019	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2019	By Balance c/d	36,000
		40,000			40,000
1.1.2020	To Balance b/d	36,000	31.12.2020	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2020	To Bank A/c	10,000	31.12.2020	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		46,000			46,000
1.1.2021	To Balance b/d	39,850	1.7.2021	By Bank A/c(sale)	28,000
1.7.2021	To Bank A/c	25,000	1.7.2021	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
			31.12.2021	By Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
				By Balance c/d (₹ 7,862 + ₹ 23,125)	30,987
		64,850			64,850
1.1.2022	To Balance b/d	30,987	1.7.2022	By Bank A/c (sale)	2,000
			1.7.2022	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
			31.12.2022	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
			31.12.2022	By Balance c/d	19,656
		30,987			30,987

Working Note:

Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery	40,000	10,000	25,000

(Machinery cost for 2019)			
Depreciation for 2019	4,000		
Written down value as on 31.12.2019	36,000		
Purchase 1.7.2020 (6 months)		10,000	
Depreciation for 2020	5,400	750	
Written down value as on 31.12.2020	30,600	9,250	
Depreciation for 6 months (2021)	2,295		
Written down value as on 1.7.2021	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		1,388	1,875
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		590	
Written down value as on 1.7.2022		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

8. Journal Entries in the Books of Mr. X

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2022					
August	1	Bills Receivable A/c	Dr.	40,000	
		To Y			40,000
		(Being the acceptance received from Y to settle his account)			
August	1	Bank A/c	Dr.	39,200	
		Discount A/c	Dr.	800	
		To Bills Receivable			40,000
		(Being the bill discounted for ₹ 39,200 from bank)			
November	4	Y	Dr.	40,000	
		To Bank Account			40,000
		(Being the Y's acceptance is to be renewed)			
November	4	Y	Dr.	960	

		To Interest Account		960
		(Being the interest due from Y for 3 months i.e., 32,000x3/12× 12% = 960)		
November	4	Cash A/c Dr.	8,960	
		Bills Receivable A/c Dr.	32,000	
		To Y		40,960
		(Being amount and acceptance of new bill received from Y)		
December	31	Y A/c Dr.	32,000	
		To Bills Receivable A/c		32,000
		(Being Y became insolvent)		
December	31	Cash A/c Dr.	12,800	
		Bad debts A/c Dr.	19,200	
		To Y		32,000
		(Being the amount received and written off on Y's insolvency)		

9. **In the Books of Rajesh**

Consignment to Pushkar Account

Particulars	₹	**Particulars**	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Mahesh (Expenses)	12,000	By Mahesh (Sales)	1,50,000
To Mahesh (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹ 18,750

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. Calculation of abnormal loss (10%):

   Abnormal Loss at Invoice price = ₹ 18,750.

   Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

   Add: Proportionate expenses of Rajesh (10 % of ₹ 15,000) = ₹ 1,500

   ₹ 16,500

3. **Calculation of closing Inventories (15%):**

   Rajesh's Basic Invoice price of consignment = ₹ 1,87,500

   Rajesh's expenses on consignment = ₹ 15,000

   ₹ 2,02,500

   Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375

   Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

   Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

   Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625

   Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)

   Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

   = ₹ 14,062.5 + ₹ 2,343.75 = ₹ 16,406

10. In the books of Mr. Kamal

Journal Entries

Date	Particulars		L.F.	Dr. (in ₹)	Cr. (in ₹)
2022					
Dec. 2	Trade receivables A/c	Dr.		2,40,000	
	To Sales A/c				2,40,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		1,05,000	
	To Trade receivables A/c				1,05,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				

Dec. 23	Sales A/c	Dr.		45,000	
	To Trade receivables A/c				45,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		36,000	
	To Trading A/c (Note 3)				36,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Note:

(1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards account.

(2) No entry is required for receiving letter of approval from customer.

(3) Cost of goods with customers = ₹ 45,000 x 100/125 = ₹ 36,000

(4) It has been considered that the transaction values are at involve price (including profit margin).

11. Taking May 21 as the zero or base date

For Sumit's payments:

Date of Transactions	Due Date	Amount	No. of days from the base date	Products
(1)	(2)	(3)	(4)	(5)
April 18	May 21	12,000	0	0
May 15	June 18	14,000	28	3,92,000
June 16	July 19	16,000	59	9,44,000
Amount Due to Amit		42,000	Sum of products	13,36,000

For Amit's payments

Taking same base date i.e. May 21

Date of Transactions	Due Date	Amount	No. of days from the base date	Products
(1)	(2)	(3)	(4)	(5)
April 23	May 26	10,600	5	53,000

May 24	June 27	10,000	37	3,70,000
Amount Due to Y		20,600	Sum of products	4,23,000

Excess of Sumit's products over Amit's = ₹ 13,36,000 – ₹ 4,23,000

= ₹ 9,13,000

Excess amount due to Amit ₹ 42,000 –₹ 20,600 = ₹ 21,400

Number of days from the base date to the date of settlement is

9,13,000/ 21,400= 42.66 days i.e. 43 days

Hence the date of settlement of the balance amount is 43 days after May 21 i.e., on 3rd July. Sumit has to pay Amit, ₹ 21,400 to clear the account.

Note: Due date is calculated after considering 3 day of grace period

12. B in Account Current with A

for the period ending on 31st March 2023

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2023		₹			2023		₹		
Jan.1	To Balance b/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March, 11	To Sales A/c	720	20	14,400	Feb. 20	By B/R A/c (due date: March 23)	1,500	8	12,000
March, 31	To Interest A/c	24							
					March, 14	By Cash A/c	800	17	13,600
					March, 31	By Balance of products			1,75,050
						By Balance c/d	94		
		4,044		2,96,400			4,044		2,96,400

*Calculation of interest

Interest = (1,75,050 x 5%)/365= ₹ 24

*Opening day considered in calculation of no. of days.

13. M/s Shrinivas & Associates

Trading Account for the year ended 31st March 2023

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		Less: Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight Inwards		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Shrinivas & Associates

Profit and Loss Account for the year ended 31st March 2023

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			

To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Shrinivas & Associates

as at 31st March 2023

Liabilities	Details	Amount	Assets	Details	Amount
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	Less: Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	Less: Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium ₹

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months	

$\left(\frac{6,000}{15} \times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	=	4,500
Less: interest as per Trial Balance	=	(4,400)
Amount (Outstanding)		100

(4) Provision for bad debts A/c

Particulars	Amount (₹)		Amount (₹)
To bad debts A/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

14.

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2022	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2022	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Ved, Jain & Agrawal	6,00,000
	Normal profit @ 30% on ₹ 18,00,000	5,40,000
	Super Profit	60,000

(3)	Value of Goodwill 5 Years' Purchase of Super profit (₹ 60,000 × 5)	₹ 3,00,000

15. **Revaluation Account**

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy*	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		
	5,62,000		5,62,000

*Alternatively JLP A/c of Rs. 10,000 can be debited to Partners Capital A/c in the profit sharing ratio. In that case, the revaluation Profit will become 4,72,000/- and credited to Partners Capital A/c in profit sharing ratio.

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation A/c	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2023 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000

B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. Average of last 4 year's profit

   = (90,000+1,40,000+1,20,000+1,30,000)/4

   = ₹ 1,20,000

2. Goodwill at three years' purchase

   ₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

16. **Amar Leela Hospital**
Income & Expenditure Account
for the year ended 31 December, 2022

Expenditure	(₹)	Income	(₹)
To Salaries	72,000	By Subscriptions	73,500
To Diet expenses	46,800	By Govt. Grants (Maintenance)	60,000
To Rent & Rates	5,100	By Fees from Sundry Patients	14,400
To Printing & Stationery	7,200	By Donations	24,000
To Electricity & Water-charges	7,200	By Benefit shows (net collections)	18,000
To Office expenses	6,000	By Interest on Investments	2,400
To Excess of Income over			

expenditure transferred to Capital Fund	48,000		
	1,92,300		1,92,300

Balance Sheet as at 31st Dec., 2022

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	1,47,900		Opening balance	2,70,000	
Excess of Income			Addition	1,50,000	4,20,000
Over Expenditure	48,000	1,95,900	Hospital Equipment :		
Building Fund :			Opening balance	1,02,000	
Opening balance	2,40,000		Addition	51,000	1,53,000
Add : Govt. Grant	2,40,000	4,80,000	Furniture		18,000
Subscriptions			Investments -		
received in advance		7,200	8% Govt. Securities		60,000
			Subscriptions receivable		4,200
			Accrued interest		2,400
			Prepaid expenses (Rent)		900
			Cash at Bank		20,400
			Cash in hand		4,300
		6,83,100			6,83,100

Working Notes:

(1) Balance sheet as at 31st Dec., 2021

Liabilities	₹	Assets	₹
Capital Fund		Building	2,70,000
(Balancing Figure)	1,47,900	Equipment	1,02,000
Building Fund	2,40,000	Subscription Receivable	19,500
Creditors for Expenses:		Cash at Bank	15,600
Salaries payable	21,600	Cash in hand	2,400
	4,09,500		4,09,500

(2) Value of Building			₹
Balance on 31st Dec. 2022			4,20,000
Paid during the year			1,50,000
Balance on 31st Dec. 2021			2,70,000
(3) Value of Equipment			
Balance on 31st Dec. 2022			1,53,000
Paid during the year			(51,000)
Balance on 31st Dec. 2021			1,02,000
(4) Subscription due for 2021			
Receivable on 31st Dec. 2021			19,500
Received in 2022			15,300
Still Receivable for 2021			4,200

17. Journal Entries in the books of Laxman Prasad Ltd.

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c Dr.		1,00,000	
To Equity Share Application A/c			1,00,000
(Money received on application for 4,000 shares @ ₹ 25 per share)			
Equity Share Application A/c Dr.		1,00,000	
To Equity Share Capital A/c			1,00,000
(Transfer of application money on 4,000 shares to share capital)			
Equity Share Allotment A/c Dr.		1,20,000	
To Equity Share Capital A/c			1,20,000
(Amount due on the allotment of 4,000 shares @ ₹ 30 per share)			
Bank A/c Dr.		1,20,000	
To Equity Share Allotment A/c			1,20,000
(Allotment money received)			
Equity Share First Call A/c Dr.		80,000	

To Equity Share Capital A/c			80,000
(First call money due on 4,000 shares @ ₹ 20 per share)			
Bank A/c Dr.		77,000	
Calls-in-Arrears A/c Dr.		8,000	
To Equity Share First Call A/c			80,000
To Calls-in-Advance A/c			5,000
(First call money received on 3,600 shares and calls-in-advance on 200 shares @ ₹ 25 per share)			

18. **Books of Samar Ltd.**

Journal

			Dr. (₹)	*Cr. (₹)*
1-1-2022	Bank A/c Dr.		18,00,000	
	Loss on Issue of Debentures A/c Dr.		3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2022	Debenture Interest A/c Dr.		1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c Dr.		90,000	
	Tax Deducted at Source A/c Dr.		10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2022	Debenture Interest A/c Dr.		1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c Dr.		90,000	

	Tax Deducted at Source A/c Dr. To Bank A/c (For payment of interest and tax)		10,000	 1,00,000
	Profit and Loss A/c Dr. To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)		2,00,000	 2,00,000
	Profit and Loss A/c Dr. To Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)		60,000	 60,000

19. (i) Rules regarding posting of entries into ledger

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

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) A **bill of exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) 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 amortization. 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.

(v) **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.