

FOUNDATION COURSE
MOCK TEST PAPER
PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) **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) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
 - (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
 - (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - (v) 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.
 - (vi) Quick ratio is also known as Cash Ratio. **(6 statements x 2 Marks= 12 Marks)**
- (b) **Explain**, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(4 Marks)**
- (c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017
- (1) Balance as per cash book is ₹ 1,20,000.
 - (2) Cheques issued but not presented in the bank amounts to ₹ 68,000.
 - (3) Bank charges amounts to ₹ 300.
 - (4) Interest credited by bank amounts to ₹ 1,500. **(4 Marks)**
2. (a) **Prepare** a Petty Cash Book on the Imprest System from the following:

2017		₹	
April	1	Received ₹ 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500

"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

(b) M/s Kedar, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.
- (ii) M/s Kedar gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.
- (iv) In March, 2017 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2017.
- (v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017. **(10 Marks + 10 Marks = 20 Marks)**

- 3 (a) Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran 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 Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran 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 Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to **prepare** consignment account in the books of Manoj along with the necessary calculations. **(10 Marks)**

- (b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for ₹ 3,75,000 in favour of B, and on 4.7.2017, **the latter** purchased 200 sets each at a cost of ₹ 3,000 each. The sets were sent to A by lorry under freight "to pay" for ₹ 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sale price
16.7.2017	3	4,500	10%

31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to **prepare** in A's books:

- Joint Venture with B A/c; and
- Memorandum Joint Venture A/c.

(10 Marks)

4. From the following data, **prepare** an Income and Expenditure Account for the year ended 31st December 2017, and Balance Sheet as at that date of the Jeevan Hospital:

**Receipts and Payments Account for the
year ended 31 December, 2017**

RECEIPTS	₹		PAYMENTS		₹
To Balance b/d			By Salaries:		
Cash	800		(₹ 7,200 for 2016)		31,200
Bank	<u>5,200</u>	6,000	By Hospital Equipment		17,000
To Subscriptions:			By Furniture purchased		6,000
For 2016		5,100	By Additions to Building		50,000
For 2017		24,500	By Printing and Stationery		2,400
For 2018		2,400			
To Government Grant:			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(₹ 300 for 2018)		2,000
Fees from sundry			By Electricity and water		
Patients		4,800	charges		2,400
To Donations (not to be		8,000	By office expenses		2,000
capitalized)			By Investments		20,000
To Net collections from			By Balances:		
benefit shows		6,000	Cash	1,400	
		<u>1,56,800</u>	Bank	<u>6,800</u>	<u>8,200</u>
					<u>1,56,800</u>
Additional information :					₹
Value of building under construction as on 31.12.2017					1,40,000
Value of hospital equipment on 31.12.2017					51,000
Building Fund as on 1.1. 2017					80,000
Subscriptions in arrears as on 31.12.2016					6,500
Investments in 8% Govt. securities were made on 1st July, 2017.					

(20 Marks)

- 5 (a) The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	Assets		₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	<u>600</u>	8,400
		<u>33,100</u>			<u>33,100</u>

N died on 3rd January, 2018 and the following agreement was to be put into effect.

- (a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.
- (b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account
- (c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.
- (d) After death of N, L and M share profit equally.

You are required to prepare:

- (i) Journal Entry for Goodwill adjustment.
- (ii) Revaluation Account and Capital Accounts of the partners.

- (b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities		Assets		₹
Shareholder's Funds		1,12,500	Current Assets	1,50,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	<u>1,12,500</u>	<u>2,62,500</u>		<u> </u>
		<u>3,75,000</u>		<u>3,75,000</u>

Net sales	5,62,500
Interest Expense	6,000
Net Profit	39,375

On Dec 31st 2016, Total Assets were ₹3,00,000 and the tax rate is 40%.

You are required to **compute** the following ratios of Hari Ltd. as on Dec. 31st 2017.

- (i) Long Term Debt to Total Assets Ratio
- (ii) Net Profit Ratio
- (iii) Return on Average Total Assets
- (iv) Return on Equity
- (v) Net Sales to Total Assets.

(10 + 10 = 20 Marks)

6. (a) Mohan Ltd. invited applications for 15 lakhs shares of ₹ 100 each payable as follows :

	₹
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

(10 Marks)

- (b) Pihu Ltd. issued 300 lakh 8% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹ 50 on application and ₹ 44 on allotment.

You are required to **prepare** the necessary journal entries for issue of debentures. **(5 Marks)**

- (c) **Explain** the differences between:

Money measurement concept and Matching Concept

Or

Going concern and Cost concept.

(5 Marks)

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ANSWERS

1. (a) (i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
- (ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.
- (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- (iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
- (v) False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
- (vi) False: Quick ratio is also known as Acid Test Ratio and not Cash Ratio.
- (b) The basic considerations in distinction between capital and revenue expenditures are:
- (i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

(c)

Pathak Ltd.

Bank Reconciliation Statement as on 31.3.2017

Particulars	₹
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	<u>1,500</u>
	1,89,500
Less : Bank charges	<u>(300)</u>
Balance as per pass book	<u>1,89,200</u>

2. (a)

PETTY CASH BOOK

Receipts ₹	Date 2017	V. No.	Particulars	Total ₹	Con- veyance ₹	Cartage ₹	Statio- nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April 1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b)

Profit and Loss Adjustment Account

	₹		₹
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to be taken as April sales)		By Samples	80,000
To Adjusted net profit	16,80,000	By Stock (Purchases of March not included in stock)	5,00,000
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	<u>19,60,000</u>		<u>19,60,000</u>

Calculation of value of inventory on 31st March, 2017

	₹
Stock on 31 st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	<u>1,50,000</u>
	<u>14,00,000</u>

3. (a)

Books of Manoj
Consignment to Jaipur 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 Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(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 Manoj (10 % of ₹ 15,000) = ₹ 1,500
₹ 16,500

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

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

Manoj'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

(b)

A's Books**Joint Venture with B A/c**

2017	Particulars	Amount (₹)	2017	Particulars	Amount (₹)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		<u>7,65,300</u>			<u>7,65,300</u>

Memorandum Joint Venture A/c

Particulars		Amount (₹)	Particulars	Amount (₹)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ ₹ 4,050 net	1,21,500
To Profit :			80 sets @ ₹ 4,200 net	3,36,000
A	81,150		80 sets @ ₹ 3,847.5 net	3,07,800
B	81,150	1,62,300		
		<u>7,65,300</u>		<u>7,65,300</u>

4.

Jeevan Hospital**Income & Expenditure Account
for the year ended 31 December, 2017**

Expenditure	(₹)	Income	(₹)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	<u>16,000</u>		
	<u>64,100</u>		<u>64,100</u>

Balance Sheet as at 31st Dec., 2017

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	<u>50,000</u>	1,40,000

Over Expenditure	<u>16,000</u>	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	<u>17,000</u>	51,000
Add : Govt. Grant	<u>80,000</u>	1,60,000	Furniture		6,000
Subscriptions received in advance		2,400	Investments-		
			8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		<u>2,27,700</u>			<u>2,27,700</u>

Working Notes:

(1) Balance sheet as at 31st Dec., 2017

Liabilities	₹	Assets	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	<u>7,200</u>	Cash in hand	<u>800</u>
	<u>1,36,500</u>		<u>1,36,500</u>
(2) Value of Building			₹
Balance on 31st Dec. 2017			1,40,000
Paid during the year			<u>50,000</u>
Balance on 31st Dec. 2016			<u>90,000</u>
(3) Value of Equipment			
Balance on 31st Dec. 2017			51,000
Paid during the year			<u>(17,000)</u>
Balance on 31st Dec. 2016			<u>34,000</u>
(4) Subscription due for 2016			
Receivable on 31st Dec. 2016			6,500
Received in 2017			<u>5,100</u>
Still Receivable for 2016			<u>1,400</u>

5. (a) (i) Journal Entry in the books of the M/s LMN

Date	Particulars		Dr. ₹	Cr. ₹
Jan 3 2018	L's Capital A/c M's Capital A/c To N's Capital A/c (Being the required adjustment for goodwill through partner's capital accounts)	Dr. Dr.	1,000 1,000	2,000

(ii) Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

(b) Long Term Debt to Total assets = $\frac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1,12,500}{3,75,000}$$
$$= 1:3.33$$

(i) Net Profit Ratio = $\frac{\text{Net Profit} \times 100}{\text{Net Sales}}$

$$= \frac{39,375 \times 100}{5,62,500}$$
$$= 7\%$$

(ii) Return on Average Total Assets Ratio = $\frac{\text{Net Profit} + \text{Interest}(1-t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39,375 + 6,000(1-0.40) \times 100}{(3,00,000 + 3,75,000) / 2}$$
$$= \frac{42,975 \times 100}{3,37,500}$$
$$= 12.73\%$$

$$\begin{aligned}
 \text{(iii) Return on Equity} &= \frac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}} \\
 &= \frac{39,375 \times 100}{1,12,500} \\
 &= 35\%
 \end{aligned}$$

$$\begin{aligned}
 \text{(iv) Net Sales to Total Assets Ratio} &= \frac{\text{Net Profit}}{\text{Total Assets}} \\
 &= \frac{5,62,500}{3,37,500} \\
 &= 1.67: 1
 \end{aligned}$$

6. (a) **Journal of Mohan Ltd.**

2017			Dr. ₹ in lakhs	Cr. ₹ in lakhs
June 1	Bank A/c To Shares Application A/c (Receipt of applications for 15 lakh shares along with application money of ₹ 20 per share.)	Dr.	300	300
June 1	Share Application and Allotment A/c Share Allotment A/c To Share Capital A/c (The allotment of 15 lakh shares : payable on application ₹ 20 share and ₹ 30 on allotment as per Directors' resolution no... dated...)	Dr. Dr.	300 450	750
June 1	Bank A/c To Shares Allotment A/c To Calls in Advance A/c [Receipt of money due on allotment @ ₹ 30, also the two calls (₹ 30 and ₹ 20) on 30,000 shares.]	Dr.	465	450 15
Nov. 1	Share First Call A/c To Share Capital A/c (The amount due on 15 lakh shares @ ₹ 30 on first call, as per Directors, resolution no... dated...)	Dr.	450	450
	Bank A/c Calls in Advance A/c To Share First Call A/c (Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)	Dr. Dr.	441 9	450
2018 March 1	Share Final Call A/c To Share Capital A/c (The amount due on Final Call on 15 lakh shares @ ₹ 20 per share, as per Directors' resolution no... dated...)	Dr.	300	300

March 1	Bank A/c Calls in Advance A/c To Share Final Call A/c (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)	Dr. Dr.	294 6	300
March 1	Interest on calls in Advance A/c To Shareholder A/c (Being interest on call in advance made due)	Dr.	0.99	0.99
Feb 1	Shareholder A/c To Bank A/c (Being interest paid)	Dr.	0.99	0.99

Working Note:

The interest on calls in advance paid @ 12% on :	₹
₹ 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months	45,000
₹ 6,00,000 (final call) from 1st June to 1st March., 2018–9 months	54,000
Total Interest Amount Due	99,000

(b)

Books of Pihu Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Amount (₹' Lakhs)	Credit Amount (₹' Lakhs)
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	15,000	15,000
	Debenture Application A/c To 8% Debentures A/c (Application money transferred to 8% debentures account)	Dr.	15,000	15,000
	Debenture Allotment A/c Loss on issue of debenture A/c To 8% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr. Dr.	13,200 3,300	15,000 1,500
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	13,200	13,200

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

$$\begin{aligned}
&= (6\% \text{ of ₹100} + 5\% \text{ of ₹100}) \times 300 \text{ lakh} \\
&= (\text{₹ } 6 + \text{₹ } 5) \times 300 \text{ lakh} \\
&= \text{₹ } 3,300 \text{ lakh}
\end{aligned}$$

(c) Difference between Money measurement concept and matching concept

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

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

Or

Difference between Going Concern Concept and Cost Concept

Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in 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, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept

By this concept, 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. When a machine is acquired by paying ₹ 5,00,000, following cost concept the value of the machine is taken as ₹ 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.