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) 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.

(iii) Accrual concept implies accounting on cash basis.

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

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

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

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

(6 Statements x 2 Marks = 12 Marks)

(b) Explain Cash and Mercantile system of accounting. **(4 Marks)**

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

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

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

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

(iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment. **(4 Marks)**

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

(i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing Rs. 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.

(b) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

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

(10 Marks +10 Marks = 20 Marks)

3. (a) On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			Rs.
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returned goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

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

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

Prepare Journal Entries in the books of Mr. A **(10 Marks +10 Marks = 20 Marks)**

4. (a) The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2018 was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss *A/c*	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, C was admitted as a partner on the following terms:

(a) C should get 1/5th of share of profits.

(b) C brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of Rs. 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

(b) Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2017 has been given below:

On 1.4.2016 he had a balance of Rs.2,00,000 advance from customers of which Rs.1,50,000 is related to year 2016-17 while remaining pertains to year 2017-18. During the year 2016-17 he made cash sales of Rs. 5,00,000. You are required to compute:

(i) Total income for the year 2016-17.

(ii) Total money received during the year if the closing balance in Advance from customers Account is Rs. 1,70,000. **(12 Marks + 8 Marks = 20 Marks)**

5. (a) A doctor, after retiring from govt. service, started private practice on 1st April, 2017 with Rs. 20,000 of his own and Rs. 30,000 borrowed at an interest of 15% 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:

	Rs.		Rs.
Own capital	20,000	Medicines purchased	24,500
Loan	30,000	Surgical equipments	25,000
Prescription fees	52,500	Motor car	32,000
Gifts from patients	13,500	Motor car expenses	12,000
Visiting fees	25,000	Wages and salaries	10,500
Fees from lectures	2,400	Rent of clinic	6,000
Pension received	30,000	General charges	4,900
		Household expenses	18,000
		Household Furniture	2,500
		Expenses on daughter's marriage	21,500
		Interest on loan	4,500
		Balance at bank	11,000
		Cash in hand	1,000
	1,73,400		1,73,400

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2018 and balance sheet as on that date. One-third of the motorcar expense may be treated as applicable to the private use of car and Rs. 3,000 of the wages and salaries are in respect of domestic servants.

The stock of mediciness in hand on 31st March, 2018 was valued at Rs. 9,500.

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

Net Profit of the year Rs. 80,000, Fixed Assets Rs. 2,00,000; Closing Inventory Rs. 10,000; Other Current Assets Rs. 1,00,000; Current Liabilities Rs. 30,000; Share Capital Rs. 1,70,000; 12% Debenture Rs. 60,000. **(15 Marks +5 Marks = 20 Marks)**

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

	Rs.
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.

(b) Riya Limited issued 20,000 14% Debentures of the nominal value of Rs.1,00,00,000 as follows:

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

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

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

You are required to prepare necessary journal entries Journal Entries.

(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 Rs. 1,20,000.

(2) Cheques issued but not presented in the bank amounts to Rs. 68,000.

(3) Bank charges amounts to Rs. 300.

(4) Interest credited by bank amounts to Rs. 1,500. **(10 + 5 + 5 = 20 Marks)**

OR

(c) Difference between Going Concern Concept and Cost Concept.

FOUNDATION COURSE

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **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.

(ii) **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

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

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

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

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

(b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing trandsactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(c) **Journal Entries in the books of Gamma Bros.**

	Particulars	*Dr.*	*Cr.*
		Amount (Rs.)	*Amount (Rs.)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		

(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for Rs. 2,000 @ 10% trade discount and cash discount of Rs. 50)		

2. (a) Profit and Loss Adjustment Account

	Rs.		Rs.
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
		By Stock (Purchases of March not included in stock)	5,00,000
To Adjusted net profit	16,80,000	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
	19,60,000		19,60,000

Calculation of value of inventory on 31st March, 2017

	Rs.
Stock on 31st 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	1,50,000
	14,00,000

(b) Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. To find out loss on Profit on settlement of truck

	Rs.
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

3. (a) In the books of Y

X in Account Current with Y

(Interest to 31st March, 2018 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2018		*Rs.*		*Rs.*	*2018*		*Rs.*		*Rs.*
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissiory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan.11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar.18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar.31	To Interest	219			Mar.23	By Purchases	4,000	8	32,000
					Mar.31	By Balance of Products			7,97,600
					Mar.31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{7,97,600}{365} \times \frac{10}{100} = \text{Rs. } 219 \text{ (approx.)}$$

(b). Journal Entries in the Books of Mr. A

Date		*Particulars*	*L.F.*	*Dr. Amount Rs.*	*Cr. Amount Rs.*
2017 August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			

August	1	Bank A/c Dr.	9,800	
		Discount A/c Dr.	200	
		To Bills Receivable		10,000
		(Being the bill discounted for Rs. 9,800 from bank)		
November	4	B Dr.	10,000	
		To Bank Account		10,000
		(Being the B's acceptance is to be renewed)		
November	4	B Dr.	240	
		To Interest Account		240
		(Being the interest due from B for 3 months i.e., 8000x3/12 $\times$ 12%=240)		
November	4	Cash A/c Dr.	2,240	
		Bills Receivable A/c Dr.	8,000	
		To B		10,240
		(Being amount and acceptance of new bill received from B)		
December	31	B A/c Dr.	8,000	
		To Bills Receivable A/c		8,000
		(Being B became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

4. (a) **Revaluation Account**

	Rs.		Rs.
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Capital Accounts of Partners

	A	B	C		A	B	C
To A's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

A's Share = 5/8 x 4/5 = 20/40 = 5/10

B's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of AB & Co. as on 31.3.2018

Liabilities		*Rs.*	*Assets*		
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	25,500	1,44,500
C	2,40,000	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	*Less*: Provision	3,000	57,000
			Cash at Bank		3,14,060
			A's current A/c		26,562
		13,28,862			13,28,862

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

C's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

A's Capital = 12,00,000 x 5/10 = 6,00,000 and

B's Capital = 12,00,000 x 3/10 = 3,60,000

(b) (i) Computation of Income for the year 2016-17:

	Rs.
Money received during the year related to 2016-17	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2016-17	**6,50,000**

(ii) Advance from Customers A/c

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
	To Sales A/c (Advance related to current year transferred to sales)	1,50,000	1.4.2016	By Balance b/d	2,00,000

31.3.17	To Balance c/d	1,70,000		By Bank A/c (Balancing Figure)	1,20,000
		3,20,000			**3,20,000**

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	**6,20,000**

5. (a) **Capital Account**

for the year ended 31st March, 2018

	Rs.		Rs.
To Drawings:		By Cash/bank	20,000
Motor car expenses	4,000	By Cash bank (pension)	30,000
(one-third of Rs. 12,000)		By Net income from practice (derived from income and expenditure a/c)	47,500
Household expenses	18,000		
Daughter's marriage exp.	21,500		
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	48,500		
	97,500		97,500

Income and Expenditure Account
for the year ended 31st March, 2018

		Rs.		Rs.
To Medicines consumed			By Prescription fees	52,500
Purchases	24,500		By Gift from patients	13,500
Less: Stock on 31.3.11	(9,500)	15,000	By Visiting fees	25,000
To Motor car expense		8,000	By Fees from lectures	2,400
To Wages and salaries (Rs. 10,500 – Rs. 3,000)		7,500		
To Rent for clinic		6,000		
To General charges		4,900		
To Interest on loan		4,500		
To Net Income		47,500		
		93,400		93,400

Balance Sheet as on 31st March, 2018

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500

		Cash at bank	11,000
		Cash in hand	1,000
	78,500		78,500

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

Current Assets= Closing Inventory + Other Current Assets

= Rs. 10,000 + Rs. 1,00,000 = Rs. 1,10,000

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

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

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

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

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

2018 March 1	Share Final Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on Final Call on 15 lakh shares @ Rs. 20 per share, as per Directors' resolution no... dated...)			
March1	Bank A/c	Dr.	294	
	Calls in Advance A/c	Dr.	6	
	To Share Final Call A/c			300
	(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)			
March 1	Interest on calls in Advance A/c	Dr.	0.99	
	To Shareholder A/c			0.99
	(Being interest on call in advance made due)			
Feb 1	Shareholder A/c	Dr.	0.99	
	To Bank A/c			0.99
	(Being interest paid)			

Working Note:

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

(b) **In the books of Riya Company Ltd.**

Journal Entries

Date	***Particulars***		***Dr.* Rs.**	***Cr.* Rs.**
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ Rs. 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)			

(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs.25,00,000 as collateral security)			

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

(c) **Pathak Ltd.**

Bank Reconciliation Statement as on 31.3.2017

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

Or

(c) ***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 Rs. 5,00,000, following cost concept the value of the machine is taken as Rs. 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.