



PAPER – 1: ACCOUNTING



QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:
 - (a) Accounting Standards for non-corporate entities in India are issued by the Central Government.
 - (b) Cash book is a subsidiary book as well as a principal book.
 - (c) Debit balance as Cash Book is same as overdraft as per passbook.
 - (d) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.
 - (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (f) A Promissory note can be made payable to bearer.
 - (g) Provision for Bad Debts is debited to Sundry Debtors A/c
 - (h) Goodwill is intangible asset therefore it cannot be valued.
 - (i) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
 - (j) A person holding preference shares of a company cannot hold equity shares of the same company.
 - (k) A Company is not allowed to issue shares at a discount to the public in general.

Theoretical Framework

2. (a) Under what circumstances can an enterprise change its accounting policy?
- (b) Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Prepare Journal Entries for the following transactions in the books of Harpreet
 - (i) Customer's cheque for ₹ 4,000 returned dishonoured for insufficient funds in his accounts. The customer had availed a cash discount of ₹ 400.
 - (ii) Income tax liability of proprietor ₹ 8,500 was paid out of petty cash.
 - (iii) Defective goods worth ₹ 5,000 are sold for 3,000.
 - (iv) Purchase of goods from Sunny of the list price of ₹ 20,000. He allowed 5% trade discount, ₹ 200 cash discount was also allowed for quick payment.
 - (v) Purchased goods from Sarah industries for ₹ 50,000 plus CGST and SGST@6% each.
 - (vi) Goods given as charity costing ₹ 1,600, sale price ₹ 2,000. CGST and SGST @ 6% each was paid at the time of purchase of such goods

Capital or Revenue Receipt or Expenditure

- (b) Classify the following transactions either as capital or revenue expenditures or as capital or revenue receipts;
 - (i) Dividend received from XYZ limited during the year.
 - (ii) Amount spent for replacement of a petrol driven engine by CNG kits.
 - (iii) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.
 - (iv) Overhauling expenses of second-hand machine purchased.

- (v) Insurance claim received on account of inventory damaged by fire.
- (vi) Entrance fees of ₹35,000 received by society club.

Trial Balance

4. (a) From the following information, draw up a Trial Balance in the books of Shri Mohan Das as on 31st March, 2024:

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	9,80,000	Purchases	2,52,000
Discount Allowed	8,400	Carriage Inward	60,900
Carriage Outwards	16,100	Sales	4,20,000
Return Inward	2,100	Return Outwards	4,900
Rent and Taxes	8,400	Plant and Machinery	5,64,900
Stock on 1 st April 2023	1,08,500	Sundry Debtors	1,41,400
Sundry Creditors	84,000	Investments	25,200
Commission Received	12,600	Cash in Hand	700
Cash at bank	70,700	Motor Cycle	2,42,200
Stock on 31 st March, 2024	1,43,500		

Rectification of Errors

- (b) Mr. Mathur's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:
- (i) The total of the Purchases Book of one page, ₹ 7,165 was carried forward to the next page as ₹ 7,615.
 - (ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

- (iii) A return to creditor, ₹ 1,595 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) A cheque of ₹ 500 issued to a suppliers A/c (shown under trade payables) towards his dues has been wrongly debited to purchases.
- (v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on sale.
- (viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

Bank Reconciliation Statement

5. From the following information (as on 31.3.2024), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	16,25,000
Cheques deposited, but not yet credited	22,37,500
Cheques issued but not yet presented for payment	17,81,000
Bank charges debited by bank but not recorded in the cash-book	6,250
Dividend directly collected by the bank	62,500
Insurance premium paid by bank as per standing instruction not intimated	7,950
Cash sales wrongly recorded in the Bank column of the cash-book	1,27,500

Customer's cheque dishonoured by bank not recorded in the cash-book	65,000
Wrong credit given by the bank	75,000

Also show the bank balance that will appear in the trial balance as on 31.3.2024.

Valuation of Inventories

6. Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2024 was completed by 10th April, 2024, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 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 ₹ 3,750 on 31st March, 2024.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2024.

Depreciation and Amortisation

7. The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April, 2023. The Books of Accounts of the Factory are closed on 31st March every year and depreciation @ 10% per annum is charged under the Diminishing Balance Method. On 1st September, 2023 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2023 a machine which had cost ₹ 21,87,000 on 1st April, 2021 was sold for ₹ 3,75,000. Another machine which had cost

₹ 21,85,000 on 1st April, 2022 was scrapped on 1st September, 2023 and it realized nothing.

Prepare Machinery Account for the year ended 31st March, 2024. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

Bills of Exchange

8. On October, 2024, Samar sells goods to Amar for ₹ 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill for ₹ 15,000 for 2 months and second bill for the balance for 3 months. Amar accepts and returns these bills to Samar. Both the bills are sent to the bank for collection on 1st October, 2024. In due course, Samar receives the information from the bank on the due date of the respective bill that the bill for ₹ 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonor of second bill are ₹ 500. Pass the journal entries in the books of Samar along with narration.

Final accounts

9. Charu decided to start business of fashion garments under the name of M/s. Bella Wear on 1st April, 2023. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2023	-	₹ 15,000 principal + ₹ 9,000 interest
30th September, 2023	-	₹ 15,000 principal + ₹ 8,550 interest
31st December, 2023	-	₹ 15,000 principal + ₹ 8,100 interest
31st March, 2024	-	₹ 15,000 principal + ₹ 7,650 interest.

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of

₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

- (i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.
- (ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.
- (iii) Closing stock in hand as on 31st March, 2024: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31st March, 2024 and Balance Sheet as on that date.

Financial Statements of Not for Profit Organizations

10. From the following Receipts and Payments Account of Finance Professionals Club.

Receipts and Payments Account for the year ended 31st March, 2024

Receipts	₹	Payments	₹
To Cash in Hand (Opening)	67,500	By Salaries	7,42,500
To cash at Bank (Opening)	18,90,000	By Stationery	1,34,550
To Subscriptions	22,86,000	By Billard Table	8,70,750

To Donations	10,80,000	By Investments	9,29,700
To Interest on Investments	27,000	By Miscellaneous Expenses	1,12,500
To Entrance Fees	2,70,000	By Furniture	18,45,000
To Interest Received from Bank	94,500	By Insurance Premium	40,500
To Sale of Old Newspapers	13,500	By Cash in Hand (Closing)	49,500
		By Cash at Bank (Closing)	10,03,500
	57,28,500		57,28,500

- (i) Subscriptions in arrears for the year ended 31st March, 2024- ₹2,02,500 and Subscriptions received in advance during the year ended 31st March, 2024 - ₹58,500.
- (ii) Insurance Premium prepaid is ₹ 4,500.
- (iii) The detail with respect to Stationery of Accountants Club is as follows:

	1st April, 2023 (₹)	31st March, 2024 (₹)
Stock of Stationery	7,500	45,000
Creditors for Stationery	39,000	60,000
Advance paid for Stationery purchased during the year	---	10,500

Prepare the Income and Expenditure Account for the year ended 31st March, 2024. As per the club rules, donations are to be capitalized and entrance fees is the income of club.

Accounts from Incomplete records

11. Saraswati Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2024 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	67,500	Furniture & fixtures	15,000
Trade creditors	75,750	Stock	91,500
Outstanding expenses	6,750	Trade debtors	31,200
		Prepaid insurance	300
		Cash in hand & at bank	12,000
	1,50,000		1,50,000

The following was the summary of cash and bank book for the year ended 31st March, 2025:

Receipts	₹	Payments	₹
To Cash in hand & at Bank on 1st April, 2024	12,000	By payment to trade creditors	12,48,300
To Cash sales	11,07,000	By Sundry expenses	93,105
To amount paid to debtors	2,77,500	By Drawings	36,000
		By Cash in hand & at Bank on 31st March, 2025	19,095
	13,96,500		13,96,500

Additional Information:

- Discount allowed to trade debtors and received from trade creditors amounted to ₹5,400 and ₹4,250 respectively, (for the year ended 31st March, 2025)
- Annual fire insurance premium of ₹900 was paid every year on 1st August for the renewal of the policy. These expenses are included in sundry expenses.
- Furniture & fixtures were subject to depreciation @ 15% p.a. or diminishing balance method.

4. The following are the balances as on 31st March, 2025:
- | | |
|----------------------|---------|
| Stock | ₹97,500 |
| Trade debtors | ₹34,300 |
| Outstanding expenses | ₹5,520 |
5. Gross profit ratio of 10% on sales is maintained throughout the year.
- You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

Partnership Accounts

12. Seema, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2024. The Balance Sheet of Firm as at 31st March 2024 stood as

Liabilities	Amount	Assets	Amount
Creditors	20,000	Land and Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital Accounts:		Stock in trade	15,000
Seema	1,00,000	Trade receivables	35,000
Yedhant	75,000	Less: Provision for doubtful debt (2,000)	33,000
Zoya	75,000	Cash in hand	7,000
		Cash at bank	12,000
	2,82,000		2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

- Land and Building be valued at ₹ 1,75,000
- Debtors were all good, no provision is required
- Stock is valued at ₹ 13,500

- (iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Seema and Yedhant.
- (v) Zoya's share of profit from 1st April 2024, to the date of death be calculated on the basis of average profit of preceding three years.
- (vi) The profit of the preceding five years ended 1st March were:

2024	2023	2022	2021	2020
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

- (1) Revaluation account
 - (2) Capital accounts of the partners and
 - (3) Balance sheet of the Firm as at 1st July 2024.
13. Agarwal, Samuel and Khan are partners in a firm. On 1st April 2022 their fixed capital stood at ₹ 2,50,000, ₹ 1,25,000 and ₹ 1,25,000 respectively.

As per the provision of partnership deed:

- (1) Khan was entitled for a salary of 25,000 p.a.
- (2) All the partners were entitled to interest on capital at 5% p.a.
- (3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2023 of ₹ 1,65,000 and 31st March, 2024 of ₹ 2,25,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

Dissolution of Partnership

14. Aman, Yaman and Zaman who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31st March, 2024 when their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,50,000
Aman 1,80,000		Machinery	90,000
Yaman 1,35,000		Tools	12,000
Zaman <u>90,000</u>	4,05,000	Car	18,000
Creditors	51,000	Debtors	93,000
		Stock	55,500
		Bank	37,500
	4,56,000		4,56,000

Following transactions took place at the time of dissolution:

Assets realized are :	₹
Tools	7,500
Machinery	1,23,000
Building	1,26,000
Car	37,500
Goodwill	90,000
Debtors	88,500

- Creditors accepted stock in settlement of their dues.
- There was an unrecorded asset valued at ₹ 4,500 which was taken by Aman for ₹3,000.
- There was an old furniture which had been written off from the books. Yaman agreed to take it at ₹ 12,000.
- Firm had to pay ₹ 12,000 for outstanding salary which not provided earlier.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Issue and Forfeiture of Shares

15. Ambiance Limited invited applications for issuing 2,25,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 9,00,000 equity shares were received. Applications for 6,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 4,500 shares applied by Mr. Kabir. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries for the above transactions in the books of Ambiance Limited.

Debentures

16. Strawberry farms Ltd. issued 20,000 11% debentures of ₹ 100 each at a discount of 5%, payable ₹ 50 on application and ₹ 45 on allotment redeemable after 3 years.

- (i) at a premium of 2%
- (ii) at a discount of 2%

Pass necessary journal entries for issue of debentures.

Redemption of Preference Shares

17. The extract of Balance Sheet of Hari Om Ltd. as on 31st March 2024 is as follows

Sr. No.	Particulars	Notes	₹	₹
I]	<u>EQUITY AND LIABILITIES</u>			
(1)	Shareholders' funds			
a)	Share Capital	1		350,000

b)	Reserve & Surplus	2	64,000
II]	<u>ASSETS</u>		
(1)	Non-current assets		
a)	PPE & Intangible Assets		
i)	PPE		2,25,000
b)	Non-Current Investments		60,000

Notes to accounts:

Sr. No.	Particulars	₹
1.	Share capital	
	Authorized Share Capital	
	40,000 Equity shares of ₹ 10 each fully paid up	4,00,000
	1,000 8% Preference shares of ₹ 100 each fully paid up	<u>1,00,000</u>
		<u>5,00,000</u>
	Issued, Subscribed Called Up and Paid up Share Capital	
	1000, 8% Preference shares of ₹ 100 each fully paid up	1,00,000
	25,000 Equity shares of ₹ 10 each fully paid up	<u>2,50,000</u>
	Total	<u>3,50,000</u>
2.	Reserve and Surplus	
	Securities Premium Reserves	9,000
	Profit and Loss Account	<u>55,000</u>
	Total	64,000

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investment of ₹ 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

18. Write short notes on the following:
- (i) Double entry system.
 - (ii) Importance of bank reconciliation to an industrial unit.
 - (iii) Bill of exchange and the various parties to it.
 - (iv) Features of Single Entry System.
 - (v) Advantages and Disadvantages of Right Issue.



SUGGESTED ANSWERS

1. (a) **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
- (b) **True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.
- (c) **False:** Debit balance as per cash book should be represented by credit or favourable balance in passbook.
- (d) **False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.
- (e) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written

down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

- (f) **False:** A promissory note cannot be made payable to bearer. It is payable to or to the order of certain person.
 - (g) **False:** Provision for Bad debts is debited to P&LA/c. In Balance Sheet it is shown as deduction from "Debtors".
 - (h) **False:** Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
 - (i) **False:** It shall be disclosed as a current liability in the opening balance sheet.
 - (j) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
 - (k) **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
2. (a) A change in accounting policy is made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.
- (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 transactions 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.

3. (a) Journal Entries in the books of Harpreet

	Particulars	Dr.	Cr.
		Amount (₹)	Amount (₹)
(i)	Customers (Debtors) A/c Dr. To Bank A/c To Discount Allowed A/c (Being customer cheque returned unpaid by bank, cash discount allowed earlier)	4,400	4,000 400
(ii)	Drawings A/c Dr. To Petty Cash A/c (Being the income tax of proprietor paid out of business money)	8,500	8,500
(iii)	Cash A/c Dr. Profit and Loss A/c To Sales A/c (Being defective goods costing ₹ 5,000 were sold for a loss of ₹ 2,000)	3,000 2,000	5,000

(iv)	Purchase A/c	Dr.	19,000	
	To Bank A/c			18,800
	To Discount Received A/c			200
	(Being the goods purchased from Sunny for ₹ 19,000 @ 5% trade discount and cash discount of ₹ 200)			
(v)	Purchases A/c	Dr.	50,000	
	Input CGST A/c	Dr.	9,000	
	Input SGST A/c	Dr.	9,000	
	To Sarah Industries			68,000
	(Being goods purchased and CGST and SGST payable at 6% each)			
(vi)	Charity A/c	Dr.	1,792	
	To Purchases A/c			1,600
	To Input CGST A/c			96
	To Input SGST A/c			96
	(Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed)			

- (b)
1. Revenue Receipts
 2. Capital Expenditure
 3. Capital Expenditure
 4. Capital Expenditure
 5. Revenue Receipts
 6. Capital Receipts.

4. (a) Trial Balance of Shri. Mohan Das as on 31st March, 2024

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		9,80,000

Purchases	2,52,000	
Discount Allowed	8,400	
Carriage Inward	60,900	
Carriage Outwards	16,100	
Sales		4,20,000
Return Inward	2,100	
Return Outwards		4,900
Rent and taxes	8,400	
Plant and Machinery	5,64,900	
Stock on 1 st April, 2023	1,08,500	
Sundry Debtors	1,41,400	
Sundry Creditors		84,000
Investments	25,200	
Commission Received		12,600
Cash in Hand	700	
Cash at Bank	70,700	
Motor Cycle	2,42,200	
	15,01,500	15,01,500

Note: Stock as on 31st March, 2024 will not appear in trail balance.

(b) Journal Entries in the books of Mr. Mathur

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- ₹ 7,615 carried forward instead of ₹ 7,165)		450	450

(ii)	Profit & Loss Adjustment A/c Dr. Customer's A/c Dr. To Suspense A/c (Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)		540 1,102	1,642
(iii)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹1,595 instead of Returns Outwards Account being credited by ₹1,595)		3,190	3,190
(iv)	Trade payables A/c Dr. To Purchases A/c (Being payments made to a supplier wrongly credited to purchases now rectified)		500	500
(v)	Customer's (debtors) A/c Dr. To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)		1,400	1,400
(vi)	Profit & Loss Adjustment A/c Dr. To Customer's A/c (The Customer's A/c credited with goods not yet purchased by him)		1,600	1,600

(vii)	Inventory A/c Dr. To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)		1,280	1280
(viii)	R's A/c/Trade receivable A/c Dr. To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)		3,000	3,000
(ix)	Profit & Loss Adjustment A/c Dr. To Mathur's Capital A/c (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)		7,180	7,180

5.
Cash Book as on 31.3.2024
(After making necessary adjustments)

Dr.			Cr.
Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	16,25,000	By Bank charges	6,250
To Dividend	62,500	By Insurance premium	7,950
		By Trade receivables (cheque dishonoured)	65,000
		By Cash A/c (wrongly recorded cash sales)	1,27,500
		By Balance c/d	14,80,800
	16,87,500		16,87,500

Bank Reconciliation Statement as on 31.3.2024

Particulars	Details	Amount ₹
Bank balance as per the cash book		14,80,800
<i>Add:</i> Cheques issued but not yet presented for payment	17,81,000	
Wrong credit given by bank	75,000	18,56,000
		33,36,800
<i>Less:</i> Cheques deposited but not yet credited by bank		(22,37,500)
Balance as per the pass book		10,99,300

The bank balance of ₹ 14,80,800 will appear in the trial balance as on 31st March, 2024.

Note: Cash sales should have been recorded by passing the following entry:

Cash A/c	Dr	1,27,500	
To Sales A/c			1,27,500

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

Cash A/c	Dr.	1,27,500	
To Bank A/c			1,27,500

**6. Statement showing the valuation of stock
as on 31st March, 2024**

Particulars	₹
Value of Stock as on 10th April, 2024	5,02,500

Add: Cost of sales after 31 st March, till stock taking (₹ 20,625 – ₹ 5,156)	15,469
Less: Purchases for the next period (net)	(24,300)
Less: Cost of Sales Returns (900-225)	(675)
Less: Loss on revaluation of slow moving inventories (3,375-1,575)	(1,800)
Less: Reduction in value on account of default (4,650- 3,750)	<u>(900)</u>
Value of Stock on 31 st March, 2024	<u>4,90,294</u>

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

7. Plant and Machinery Account for the year ended 31st March,2024

		₹			₹
01-04-23	To Balance b/d	95,00,000	01-09-24	By Bank (Sales)	3,75,000
01-09-23	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
			31-03-24	By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i) Calculation of loss on sale of machine on 01-09-2023		
		₹
Cost on 1-4-2021		21,87,000
Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
W.D.V. on 31-03-2022		19,68,300
Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
W.D.V. on 31-03-2023		17,71,470
Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
		16,97,659
Less: Sale proceeds on 01-09-2023		(3,75,000)
Loss		13,22,659
(ii) Calculation of loss on scrapped machine		
Cost on 1-4-2022		21,85,000
Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
W.D.V. on 31-3-2023		19,66,500
Less: Depreciation @ 10% on ₹ 19,66,500 for 5 months		(81,938)
Loss		18,84,562
(iii) Depreciation		
Balance of machinery account on 1-4-2023		95,00,000
Less: W.D.V of machinery sold	17,71,470	
W.D.V. of machinery scrapped	19,66,500	(37,37,970)
Balance of other machinery after sale and scrap on 1-4-2023		57,62,030
Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
		6,60,471

Note: The figures are rounded off to nearest rupee.

8. Journal Entries in the books of Samar

Date	Particulars L.F.	Dr. ₹	Cr. ₹
2024 Oct.1	Amar A/c Dr. To Sales A/c To Output IGST A/c (Being the inter-state sale of goods to Amar, charged to IGST @ 18%)	29,500	25,000 4,500
Oct.1	Bills Receivable (No. 1) A/c Dr. Bills Receivable (No. 2) A/c Dr. To Amar A/c (Being the two bills acceptance - one for ₹15,000 and the other for ₹14,500 received)	15,000 14,500	29,500
Oct.1	Bills sent for collection A/c Dr. To Bills Receivable (No.1) A/c To Bills Receivable (No.2) A/c (Being the bills sent to bank for collection)	29,500	15,000 14,500
Dec.4	Bank A/c Dr. To Bills sent for collection A/c (Being the amount duly collected by bank on first bill)	15,000	15,000
2025 Jan.4	Amar A/c Dr. To Bills sent for collection A/c To Bank A/c (Being the second bill dishonored and bank paid ₹500 as noting charges)	15,000	14,500 500

9. In the books of M/s Bella Designer wear
Trading and Profit & Loss Account (for the year ending 31.3.2024)

	₹		₹
To Purchases	17,00,000	By Sales	20,00,000
To Gross profit	<u>8,50,000</u>	By Closing stock	<u>5,50,000</u>
	<u>25,50,000</u>		<u>25,50,000</u>
To Interest (9,000+8,550+8,100+7,650)	33,300	By Gross profit	8,50,000
To Telephone charges	50,000		
To Travelling expenses	45,000		
To Maintenance expenses	25,000		
To Entertainment expenses	5,000		
To Electricity exp 40,000			
Add: outstanding <u>20,000</u>	60,000		
To Carriage outward	60,000		
To Depreciation			
Building 5% 30,000			
Furniture 10% <u>1,000</u>	31,000		
To Misc. exp	15,000		
To Net profit	<u>5,25,700</u>		
	<u>8,50,000</u>		<u>8,50,000</u>

Balance Sheet as on 31st March, 2024

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	<u>30,000</u>	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	<u>5,25,700</u>	9,65,700	Less: dep	<u>1,000</u>	9,000

Bank Loan	3,00,000		Security deposit-Telephone		7,000
Less: repayment outstanding electricity exp	<u>60,000</u>	2,40,000	Bank		89,700
		<u>20,000</u>	Closing stock		<u>5,50,000</u>
		<u>12,25,700</u>			<u>12,25,700</u>

Working note:
Bank Account

PARTICULARS	₹	PARTICULARS	₹
To Capital	3,00,000	By Building	6,00,000
To Further capital	2,00,000	By Furniture	10,000
To Bank loan	3,00,000	By Bank loan repaid	60,000
To Sales	20,00,000	By Interest	33,300
		By Security deposit	7,000
		By Drawings	60,000
		By Purchase	17,00,000
		By Telephone charges	50,000
		By Travelling expenses	45,000
		By Maintenance expenses	25,000
		By Entertainment expenses	5,000
		By Electricity expenses paid	40,000
		By Carriage outward	60,000
		By Misc. expenses	15,000
		By Balance c/d	<u>89,700</u>
	<u>28,00,000</u>		28,00,000

10.

Finance Professionals Club
Income and Expenditure Account
for the year ended 31st March, 2024

Expenditure	₹	Income	₹
To Salaries	7,42,500	By Subscriptions 22,86,000	
To Stationery (WN. 2)	1,07,550	Add: Arrears <u>2,02,500</u>	
To Miscellaneous Expenses	1,12,500	24,88,500	
To Insurance Premium		Less: Advance <u>(58,500)</u>	
40,500	-		24,30,000
Less: Prepaid <u>(4,500)</u>	36,000	By Entrance Fees	2,70,000
To Surplus - Excess of		By Interest on Investments	27,000
Income over Expenditures	18,36,450	By Interest Received from	
		Bank	94,500
		By Sale of Old Newspapers	13,500
	28,35,000		28,35,000

Working Note:

Computation of consumption of Stationery during the year

1. Creditors for Stationery Account

Particulars	₹	Particulars	₹
To bank A/c (Paid)	1,34,550	By Balance b/d	39,000
To Balance c/d	60,000	By Stock of Stationery A/c (Balancing Figure)	1,45,050
		By advance paid for stationary purchased	10,500
	1,94,550		1,94,550

2. Stock of Stationery Account

Particulars	₹	Particulars	₹
To Balance b/d	7,500	By Income and Expenditure A/c (Bal. Fig.) (Stationery Consumed)	1,07,550
To Creditors for Stationery A/c (Transfer)	1,45,050	By Balance c/d	45,000
	1,52,550		1,52,550d

11. Trading and Profit and Loss Account
for the year ended 31st March,2025

Particulars	₹	Particulars	₹
To Opening stock	91,500	By Sales	
To Purchases (bal fig)	12,59,700	Cash 11,07,000	
To Gross Profit @ 10%	1,39,300	Credit <u>2,86,000</u>	13,93,000
	14,90,500	By Closing stock	97,500
To Expenses (WN .2)	90,975	By Gross Profit	1,39,300
To Insurance (WN .3)	900	By Discount Received	4,250
To Discount Allowed	5,400		
To Depreciation	2,250		
To Net profit (bal fig)	44,025		
	1,43,550		1,43,550

Balance Sheet as on 31st March,2025

Liabilities	₹	₹	Assets	₹	₹
Capital A/c			Furniture	15,000	
Opening balance	67,500		(-) Depreciation	<u>(2,250)</u>	12,750

(+) Profit	44,025		Debtors		34,300
	1,11,525		Stock		97,500
(-) Drawings	(36,000)	75,525	Bank		19,095
Creditors		82,900	Prepaid Insurance		300
Outstanding exp		5,520			
		1,63,945			1,63,945

W. N. 1
Creditors A/c

Particulars	₹	Particulars	₹
To Bank a/c	12,48,300	By Bal b/d	75,750
To Discount	4,250	By Purchase	12,59,700
To Bal c/d (bal fig)	82,900		
	13,35,450		13,35,450

W.N. 2
Expenses A/c

Particulars	₹	Particulars	₹
To Bank (93,105-900)	92,205	By Outstanding expenses as per opening balance sheet	6,750
To Payable	5,520	By P&L (bal fig)	90,975
	97,725		97,725

W.N.3
Insurance A/c

Particulars	₹	Particulars	₹
To Prepaid as per opening Balance Sheet	300	By Prepaid (900*4/12)	300

To Bank	900	By P&L (bal fig)	900
	1,200		1,200

W.N. 4 Debtors A/c

Particulars	₹	Particulars	₹
To Bal b/d	31,200	By bank	2,77,500
To Credit Sales (Bal fig)	2,86,000	By Discount	5,400
		By Bal c/d	34,300
	3,17,200		3,17,200

12. (a) Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners: (Revaluation Profit)		By Provision for doubtful debt	2,000
Seema	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Seema	Yedhant	Zoya	Particulars	Seema	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Seema & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875

				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = $[(25,000 + 20,000 + 22,500)/3] \times 3/12 \times 1/3 = 1,875$

Balance Sheet of Firm as on 1st July, 2024

Particulars	₹	Particulars	₹
Seema	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March.

31.3.2020	28,750
31.3.2021	35,000
31.3.2022	22,500
31.3.2023	20,000
31.3.2024	<u>25,000</u>
Total	<u>1,31,250</u>
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250 x 1/3
= ₹ 8,750

Which is contributed by Seema and Yedhant in their gaining Ratio

Seema = ₹ 8750X1/2 = ₹ 4375

Yedhant = ₹ 8750X1/2 = ₹ 4375

13.

Particulars	A	B	C	Total Profit of firm
I. Amount already credited: Share of profit (in the ratio of 1:1:1) (2022-23,2023-24)	1,30,000	1,30,000	1,30,000	3,90,000
Amount which should have been credited: Khan's Salary (2022-23,2023-24)			50,000	50,000
Interest on Capital (2022-23,2023-24)	25,000	12,500	12,500	50,000
Share of Profit	1,45,000	72,500	72,500	2,90,000
	1,70,000	85,000	1,35,000	
Net effect (I-II)	(40,000)	45,000	(5,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
Samuel's Current A/c	45,000	
To Agarwal's Current A/c		40,000
To Khan's Current A/c		5,000
(Salary to Khan's, Interest on capital charged and profit shared among partners in the ratio of capital)		

14.

Realisation Account

Particulars			Particulars		
To Sundry Assets – Transfer:			By Creditors		51,000
Debtors	93,000		By bank A/c –		

Stock	55,500		Assets Realised:		
Tools	12,000		Machinery	1,23,000	
Car	18,000		Car	37,500	
Machinery	90,000		Debtors	88,500	
Building	<u>1,50,000</u>	4,18,500	Tools	7,500	
To bank A/c		12,000	Building	1,26,000	
(outstanding Salary)			Goodwill	<u>90,000</u>	4,72,500
To gain (Profit) on realization transferred to Aman's Capital A/c	54,000		By Yaman's Capital A/c (Old Furniture)		12,000
Yaman's Capital A/c	36,000		By Aman's Capital A/c Unrecorded Asset		3,000
Zaman's Capital A/c	18,000	1,08,000			
		<u>5,38,500</u>			<u>5,38,500</u>

Partners Capital Accounts

Particulars	Aman (₹)	Yaman (₹)	Zaman (₹)	Particulars	Aman (₹)	Yaman (₹)	Zaman (₹)
To Realisation A/c	3,000	12,000		By Balance b/d	1,80,000	1,35,000	90,000
To Bank A/c	2,31,000	1,59,000	1,08,000	By Realisation A/c (Gain)	54,000	36,000	18,000
	<u>2,34,000</u>	<u>1,71,000</u>	<u>1,08,000</u>		<u>2,34,000</u>	<u>1,71,000</u>	<u>1,08,000</u>

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	37,500	By Realisation A/c (Outstanding Salary)	12,000
To Realisation A/c	4,72,500	By Aman's Capital A/c	2,31,000

Assets Realised	-	By Yaman's Capital A/c	1,59,000
	-	By Zaman's Capital A/c	1,08,000
	5,10,000		5,10,000

Note: Since the stock is taken over by creditors, no entry is passed for such payment.

15. Journal Entries in the books of Ambiance Ltd.

		Dr. ₹	Cr. ₹
1	Bank Account Dr. To Share Application & Allotment A/c (Being Application money on 9,00,000 shares at ₹ 9 per share received.)	81,00,000	81,00,000
2	Share Application & Allotment A/c Dr. To Share Capital A/c (225,000 x ₹ 4) To Securities premium A/c (225,000 x ₹ 5) To Bank A/c (6,00,000 x ₹ 9) To Share First & Final Call A/c (Being application money transferred)	81,00,000	9,00,000 11,25,000 54,00,000 6,75,000
3	Share First & Final Call A/c (225,000 x 6) Dr. To Share Capital Account (Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....)	13,50,000	13,50,000
4	Bank Account A/c Dr. Calls in arrear A/c Dr. To Share First & Final Call Account (Being Receipt of the amounts due on first call)	6,64,875 10,125	6,75,000
5	Equity share capital A/c Dr.	33,750	

	To Share forfeiture A/c		23,625
	To Calls in arrear A/c		10,125
	(Being 3,375 shares forfeited for non payment of final call.)		
6	Bank Account A/c (3,375 x ₹ 6) Dr.	20,250	
	Share forfeiture A/c (3,375 x ₹ 4)	13,500	
	To Share Capital Account (3,375 x ₹ 10)		33,750
	(Being forfeited shares reissued at ₹ 4 discount)		
7	Share forfeiture A/c	10,125	
	To Capital reserve A/c		10,125
	(Being share forfeiture transferred to capital reserve*)		

Working notes:
1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital @ ₹ 4/-	Money Transferred to Security Premium @ ₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
6,00,000	-	54,00,000	-	-	-	-	-	54,00,000
3,00,000	225,000	27,00,000	9,00,000	11,25,000	6,75,000	13,50,000	12,75,000	-
9,00,000	2,25,000	81,00,000	9,00,000	11,25,000	6,75,000	13,50,000	13,39,875*	54,00,000

* ₹ 13,50,000 less ₹ 10,125.

2. Number of shares allotted to Mr. Kabir = $4,500 \times 225,000 / 3,00,000 = 3,375$ shares

3. Calculation of calls in arrear

Application money received from Kabir	(4,500 x9)	40,500
Less: actual application money	3,375 x9	<u>30,375</u>
Excess Application & Allotment Money Adjusted with first and final call		<u>70,875</u>
Final call due from Kabir		20,250
Less: Adjusted with final call		<u>(10,125)</u>
Calls in arrear		<u>10,125</u>

16. (i) Books of Strawberry Farms Ltd.
Journal

Particulars	L.F.	Debit Amount	Credit Amount
Bank A/c Dr. To Debenture Application A/c (Debentures application money received)		10,00,000	10,00,000
Debenture Application A/c Dr. To 11% Debentures A/c (Application money transferred to 11% debentures account)		10,00,000	10,00,000
Debenture Allotment A/c Dr. Discount on issue of debentures Dr. Loss on issue of debenture A/c Dr. To 11% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)		9,00,000 1,00,000 40,000	10,00,000 40,000

Bank A/c	Dr.	8,80,000	
To Debenture Allotment A/c			8,80,000
(Allotment amount received)			

Working Notes:

Amount of discount on issue = 20,000 X ₹100 X 5% = ₹ 1,00,000

Loss on issue of debentures = 20,000 X ₹100 X 2% = ₹ 40,000

Alternatively, the discount on issue of debentures, can be combined with loss on issue of debentures A/c as both discount and redemption premium represent loss to the company. In that case the journal entries will be

Debenture Allotment A/c	Dr.	9,00,000	
Loss on issue of debenture A/c	Dr.	1,40,000	
To 11% Debentures A/c			10,00,000
To Debenture redemption premium A/c			40,000
(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			

(ii)

Books of Strawberry Farms Ltd.
Journal

Particulars	L.F.	Debit Amount	Credit Amount
Bank A/c	Dr.	10,00,000	
To Debenture Application A/c			10,00,000
(Debentures application money received)			
Debenture Application A/c	Dr.	10,00,000	
To 11% Debentures A/c			10,00,000
(Application money transferred to 11% debentures account)			

Debenture Allotment A/c	Dr.		9,00,000	
Discount on issue of debentures	Dr		1,00,000	
To 11% Debentures A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)				10,00,000
Bank A/c	Dr.		9,00,000	
To Debenture Allotment A/c (Allotment amount received)				9,00,000

17. In the books of Hari Om Ltd.
Journal Entries

Particulars		Cr. (₹)	Cr. (₹)
Bank A/c	Dr.	55,000	
To Equity Share Application and Allotment A/c (Being Application money received)			55,000
Equity Share Application A/c	Dr.	55,000	
To Equity Share Capital A/c To Securities Premium A/c (Being capitalization of equity share application money received)			50,000 5,000
Bank A/c	Dr.	70,800	
To Investments A/c To Profit on sale of investments A/c (Being Investments Sold)			60,000 10,800
8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
Premium on Redemption of Preference		10,000	

Shares A/c To 8% Preference Shareholders A/c (Being amount payable to preference share holders on redemption of 10% premium)			1,10,000
Preference Shareholders A/c Dr. To Bank A/c (Being amount paid to Preference Shareholders)	1,10,000		1,10,000
Profit & Loss A/c Dr. To Premium on Redemption of Preference Share A/c (Being Premium on Redemption of preference shares written off out of profit)	10,000		10,000
Profit and Loss A/c Dr. To Capital Redemption Reserve A/c (W.N.) (Being amount transferred to Capital Redemption Reserve)	50,000		50,000

Working Note:
Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed ₹ 1,00,000

Less: Proceeds from new issue ₹ (50,000)

Total Balance ₹ 50,000

- 18. (i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic

and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

- (a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.
 - (b) The profit earned or loss suffered during a period can be ascertained together with details.
 - (c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.
 - (d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.
 - (e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.
- (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) Single entry system is an inaccurate and unsystematic method of recording business transactions. Features of Single entry system are as follows:
- (i) It is an inaccurate, unscientific and unsystematic method of recording business transactions.
 - (ii) There is generally no record of real and nominal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
 - (iii) Cash book mixes up business and personal transactions of the owners.
 - (iv) There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
 - (v) Profit under this system is only an estimate based on available information and therefore true and correct profits

cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

(v) Advantages of Right Issue

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of Right Issue

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.