**MOCK TEST PAPER 1**

**FOUNDATION COURSE**

**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

**ANSWERS**

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

**(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)** **True:** If closing stock appears in the trail balance, it depicts that one aspect of the double entry has been completed.

**(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 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

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

| | *Particulars* | *Dr. Amount (₹)* | *Cr. Amount (₹)* |
|---|---|---|---|
| (i) | Salaries A/c | 15,000 | |
| | To Purchase A/c | | 15,000 |
| | (Being entry made for stock taken by employees) | | |
| (ii) | Machinery A/c | 16,000 | |
| | To Cash A/c | | 16,000 |
| | (Being wages paid for erection of machinery) | | |

| | | | |
|---|---|---|---|
| (iii) | Drawings A/c | 3,400 | |
| | To Petty Cash A/c | | 3,400 |
| | (Being the income tax of proprietor paid out of business money) | | |
| (iv) | Purchase A/c | 3,600 | |
| | To Cash A/c | | 3,500 |
| | To Discount Received A/c | | 100 |
| | (Being the goods purchased from Naveen for ₹ 4,000 @ 10% trade discount and cash discount of ₹ 100) | | |

**2. (a) Statement of Valuation of Stock on 30th April,2023**

| | | ₹ |
|---|---|---|
| Value of stock as on 23rd April, 2023 | | 48,00,000 |
| *Add:* Unsold stock out of the goods sent on consignment | 2,40,000 | |
| Purchases during the period from 23rd April, 2023 to 30th April, 2023 | 2,40,000 | |
| Goods in transit on 30th April, 2023 | 1,60,000 | |
| Cost of goods sent on approval basis (80% of ₹ 1,60,000) | 1,28,000 | 7,68,000 |
| | | 55,68,000 |
| *Less:* Cost of sales during the period from 23rd April, 2023 to 30th April,2023 | | |
| Sales (₹ 13,60,000-₹ 1,60,000) | 12,00,000 | |
| *Less:* Gross profit | 96,000 | |
| | | 11,04,000 |
| Value of stock as on 30th April, 2023 | | 44,64,000 |

**Working Notes:**

| | | ₹ | ₹ |
|---|---|---|---|
| **1.** | **Calculation of normal sales:** | | |
| | Actual sales | | 13,60,000 |
| | Less: Abnormal sales | 1,20,000 | |
| | Return of goods sent on approval | 1,60,000 | 2,80,000 |
| | | | 10,80,000 |
| **2.** | **Calculation of gross profit:** | | |
| | Gross profit or normal sales 20/100 x ₹ 10,80,000 | | 2,16,000 |
| | Less: Loss on sale of particular (abnormal) goods (2,40,000 - 1,20,000) | | 1,20,000 |
| | Gross profit | | 96,000 |

**(b)** **In the books of M/s Mazars**

**Machinery A/c**

| Date | Account | (in ₹) | Date | Account | (in ₹) |
|---|---|---|---|---|---|
| 01.01.2021 | To Balance b/d | 4,56,000 | 01.07.2021 | By Bank A/c | 2,50,000 |
| | | | | By P&L A/c – Loss on Sale | 50,000 |
| 30.09.2021 | To Bank A/c | 60,000 | 31.12.2021 | By Depreciation | 37,500 |
| | | | | By Balance c/d | 1,78,500 |
| | | 5,16,000 | | | 5,16,000 |
| 01.01.2022 | To Balance b/d | 1,78,500 | 31.12.2022 | By Depreciation | 26,775 |
| | | | 31.12.2022 | By Balance c/d | 1,51,725 |
| | | 1,78,500 | | | 1,78,500 |

**Working Note: Calculation of Book Value of Machines under SLM**

| | Machine 1 | Machine 2 | Machine 3 |
|---|---|---|---|
| | (in ₹) | (in ₹) | (in ₹) |
| Date of Purchase | 01.01.2019 | 01.07.2019 | 30.09.2021 |
| Original Cost | 4,00,000 | 1,60,000 | 60,000 |
| Depreciation for 2019 (SLM) | (40,000) | (8,000) | |
| WDV on 31.12.2019 | 3,60,000 | 1,52,000 | |
| Depreciation for 2020 (SLM) | (40,000) | (16,000) | |
| WDV on 31.12.2020 | 3,20,000 | 1,36,000 | |
| Depreciation for 2021 (SLM) | (20,000) | (16,000) | (1,500) |
| WDV on 31.12.2021 (30th June for Machine1) | 3,00,000 | 1,20,000 | 58,500 |
| Sale Proceeds | (2,50,000) | | |
| Loss on Sale | 50,000 | | |
| Depreciation for 2022 (WDV @ 15%) | - | (18,000) | (8,775) |
| WDV on 31.12.2022 | - | 1,02,000 | 49,725 |

**3.** **(a)** **Journal Entries in the books of Rajat**

| 2023 | | | *Dr.* (₹) | *Cr.* (₹) |
|---|---|---|---|---|
| Jan. 1 | Bills receivable (No. 1) A/c | Dr. | 32,000 | |
| | Bills receivable (No. 2) A/c | Dr. | 50,000 | |
| | To Vishal A/c | | | 82,000 |
| | (Being drawing of bills receivable No. 1 due for maturity on 4.3.2023 and bills receivable No. 2 due for maturity on 4.4.2023) | | | |
| March 4 | Vishal's A/c | Dr. | 32,000 | |
| | To Bills receivable (No.1) A/c | | | 32,000 |
| | (Being the reversal entry for bill No.1 on renewal) | | | |

| | | | | |
|---|---|---|---|---|
| March 4 | Bills receivable (No. 3) A/c | Dr. | 32,800 | |
| | To Interest A/c | | | 800 |
| | To Vishal 's A/c | | | 32,000 |
| | (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2023 together with interest at 15%p.a. in lieu of the original acceptance of Vishal) | | | |
| March 25 | Bank A/c | Dr. | 49,500 | |
| | Discount A/c | Dr. | 500 | |
| | To Bills receivable (No. 2) A/c | | | 50,000 |
| | (Being the amount received on retirement of bills No.2 before the due date) | | | |
| May 7 | Vishal's A/c | Dr. | 32,800 | |
| | To Bills receivable (No. 3) A/c | | | 32,800 |
| | (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date) | | | |
| May 7 | Bank A/c | Dr. | 16,400 | |
| | To Vishal's A/c | | | 16,400 |
| | (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill) | | | |
| May 7 | Bad debts A/c | Dr. | 16,400 | |
| | To Vishal's A/c | | | 16,400 |
| | (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts) | | | |

**(b) Calculation of Average Due Date**

**Taking Base Date 21.07.2022**

| *Date of bill* | *Period* | *Due Date* | *Amount* | *Number of Days from Base Date* | *Product* |
|---|---|---|---|---|---|
| | | | ₹ | | ₹ |
| 9.4.2022 | 4 months | 12.08.2022 | 3,000 | 22 | 66,000 |
| 18.4.2022 | 3 months | 21.07.2022 | 5,500 | 0 | 0 |
| 25.5.2022 | 6 months | 28.11.2022 | 3,000 | 130 | 3,90,000 |
| 5.6.2022 | 3 months | 8.09.2022 | 6,000 | 49 | 2,94,000 |
| | | | 17,500 | | 7,50,000 |

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500}$$ = 21.7.2022 + 43 days = 2.09.2022.

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2022 + 4 months = 4.11.2022;

Second Bill- 1.7.2022+ 6 months = 4.1.2023.

Interest to be charged in respect of the above bills:

| | | |
|---|---|---|
| 1st bill | = | Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2022 to 4.11.2022) |
| | = | ₹ 10,000 x 10% x 63/365 = ₹ 172.60 |
| 2nd bill | = | Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2022 to 4.1.2023) |
| | = | ₹ 7,500 x 10% x 124/365 = ₹ 254.80. |

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

**(c)** **In the books of Mr. Lee**

**Mr. Cooper in Account Current with Mr. Lee**

**(Interest to 31st March, 2023 @ 12% p.a.)**

**(By means of product)**

| *Date 2023* | *Particulars* | *Due Date* | *Amount ₹* | *Days* | *Product* | *Date 2023* | *Particulars* | *Due Date* | *Amount ₹* | *Days* | *Product* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan 12 | To Sales A/c | Feb. 1 | 30,000 | 58 | 17,40,000 | Jan. 1 | By Balance b/d | Jan. 1 | 3,500 | 90 | 3,15,000 |
| Jan 31 | To Sales A/c | Feb. 15 | 27,500 | 44 | 12,10,000 | Feb. 15 | By Cash A/c | Feb. 15 | 40,000 | 44 | 17,60,000 |
| Mar. 31 | To Interest | | 130 | | | Feb. 20 | By Cash A/c | Feb. 20 | 7,500 | 39 | 2,92,500 |
| | 3,96,500/365 x $\frac{12}{100}$ | | | | | Mar. 10 | By Sales returns | Mar. 10 | 7,000 | 21 | 1,47,000 |
| | | | | | | Mar. 25 | By Cash A/c | Mar. 25 | 6,500 | 6 | 39,000 |
| Mar. 31 | To Balance c/d | | 6,870 | | | Mar. 31 | By Balance of products | | | | 3,96,500 |
| | | | 64,500 | | 29,50,000 | | | | 64,500 | | 29,50,000 |

**4. (a)** **Revaluation Account**

| | ₹ | | ₹ |
|---|---|---|---|
| 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 P's Capital A/c (5/8) | 73,438 | | |
| To Q's Capital A/c (3/8) | 44,062 | | |
| | 1,52,000 | | 1,52,000 |

**Partners Capital Account**

| | *P* | *Q* | *R* | | *P* | *Q* | *R* |
|---|---|---|---|---|---|---|---|
| To P's Capital A/c | - | - | 20,000 | By Balance b/d | 4,10,000 | 3,30,000 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| To Q's Capital A/c | | | 12,000 | By Revaluation A/c | 73,438 | 44,062 | - |
| To Q'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 R's Capital A/c | 20,000 | 12,000 | - |
| | | | | By P'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:

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

Remaining Share = 1 – 1/5 = 4/5

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

Q'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 M/s Pigeon and Associates as on 31.3.2023**

| *Liabilities* | | ₹ | *Assets* | | |
|---|---|---|---|---|---|
| Capital Accounts: | | | Land & Buildings | | 5,32,000 |
| P | 6,00,000 | | Plant & Machinery | 1,70,000 | |
| Q | 3,60,000 | | Less: Depreciation | 25,500 | 1,44,500 |
| R | 2,40,000 | 12,00,000 | Furniture | | 1,09,480 |
| Q'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 |
| | | | P's current A/c | | 26,562 |
| | | 13,28,862 | | | 13,28,862 |

**Working Note:**

Required Balance of Capital Accounts

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

R's Share of Profit = 1/5

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

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

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

**(b)** **Trading and Profit and Loss Account of Mr. Kamal for the year ended 31st March, 2023**

*Dr.* *Cr.*

| | | *Amount* | | | *Amount* |
|---|---|---|---|---|---|
| | ₹ | ₹ | | ₹ | ₹ |
| To Opening stock | | 64,500 | By Sales | 4,27,150 | |
| To Purchases | 3,06,200 | | *Less*: Sales return | 5,150 | 4,22,000 |
| *Less*: Purchases return | 3,450 | 3,02,750 | By Closing stock | | |
| To Carriage inward | | 2,250 | $\left(₹\ 1,60,000 \times \frac{100}{80} \times \frac{100}{80}\right)$ | | 2,50,000 |
| To Wages | | 23,430 | | | |
| To Gross profit c/d | | 2,79,070 | | | |
| | | 6,72,000 | | | 6,72,000 |
| To Salaries | | 45,100 | By Gross profit b/d | | 2,79,070 |
| To Rent | | 8,600 | By Bad debts recovered | | 900 |
| To Advertisement expenses | | 8,350 | | | |
| To Printing and stationery | | 2,500 | | | |
| To Bad debts | | 2,200 | | | |
| To Carriage outward | | 2,700 | | | |
| To Provision for doubtful debts | | | | | |
| 5% of ₹ 2,40,000 12,000 | | | | | |
| *Less:* Existing provision 6,400 | | 5,600 | | | |
| To Provision for discount on debtors | | | | | |
| 2.5% of ₹ 2,28,000 5,700 | | | | | |
| *Less:* Existing provision 2,750 | | 2,950 | | | |
| To Depreciation: | | | | | |
| Plant and machinery | 6,000 | | | | |
| Furniture and fittings | 2,050 | 8,050 | | | |
| To Office expenses | | 20,320 | | | |
| To Interest on loan | | 6,000 | | | |
| To Net profit (Transferred to capital account) | | 1,67,600 | | | |
| | | 2,79,970 | | | 2,79,970 |

**Balance Sheet of Mr. Kamal as on 31st March, 2023**

| **Liabilities** | (₹) | **Amount** (₹) | **Assets** | (₹) | **Amount** (₹) |
|---|---|---|---|---|---|
| Capital account | 1,30,000 | | Plant and machinery | 40,000 | |
| Add: Net profit | 1,67,600 | | Less: Depreciation | 6,000 | 34,000 |
| | 2,97,600 | | Furniture and fittings | 20,500 | |
| Less: Drawings | 23,000 | 2,74,600 | Less: Depreciation | 2,050 | 18,450 |

| | | | | | |
|---|---|---|---|---|---|
| Bank overdraft | | 1,60,000 | Closing stock | | 2,50,000 |
| Sundry creditors | | 95,000 | Sundry debtors | 2,40,000 | |
| Payable salaries | | 4,900 | Less: Provision for doubtful debts | 12,000 | |
| | | | Provision for disc on debtors | 5,700 | 2,22,300 |
| | | | Prepaid rent | | 600 |
| | | | Cash in hand | | 2,900 |
| | | | Cash at bank | | 6,250 |
| | | 5,34,500 | | | 5,34,500 |

**5.** **Pushp Speciality Hospital**

**Income & Expenditure Account**
**for the year ended 31 December, 2022**

| Expenditure | (₹) | Income | (₹) |
|---|---|---|---|
| To Salaries | 48,000 | By Subscriptions | 49,000 |
| To Diet expenses | 31,200 | By Govt. Grants (Maintenance) | 40,000 |
| To Rent & Rates | 3,400 | By Fees, Sundry Patients | 9,600 |
| To Printing & Stationery | 4,800 | By Donations | 16,000 |
| To Electricity & Water-charges | 4,800 | By Benefit shows (net collections) | 12,000 |
| To Office expenses | 4,000 | By Interest on Investments | 1,600 |
| To Excess of Income over expenditure transferred to Capital Fund | 32,000 | | |
| | 1,28,200 | | 1,28,200 |

**Balance Sheet as at 31st Dec., 2022**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital Fund : | | | Building : | | |
| Opening balance | 98,600 | | Opening balance | 1,80,000 | |
| Excess of Income | | | Addition | 1,00,000 | 2,80,000 |
| Over Expenditure | 32,000 | 1,30,600 | Hospital Equipment : | | |
| Building Fund : | | | Opening balance | 68,000 | |
| Opening balance | 1,60,000 | | Addition | 34,000 | 1,02,000 |
| *Add :* Govt. Grant | 1,60,000 | 3,20,000 | Furniture | | 12,000 |
| Subscriptions | | | Investments- | | |
| received in advance | | 4,800 | 8% Govt. Securities | | 40,000 |
| | | | Subscriptions receivable | | 2,800 |
| | | | Accrued interest | | 1,600 |
| | | | Prepaid expenses (Rent) | | 600 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Cash at Bank | | 13,600 |
| | | | Cash in hand | | 2,800 |
| | | 4,55,400 | | | 4,55,400 |

**Working Notes:**

**(1) Balance sheet as at 31st Dec., 2022**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Fund | | Building | 1,80,000 |
| (Balancing Figure) | 98,600 | Equipment | 68,000 |
| Building Fund | 1,60,000 | Subscription Receivable | 13,000 |
| Creditors for Expenses : | | Cash at Bank | 10,400 |
| Salaries payable | 14,400 | Cash in hand | 1,600 |
| | 2,73,000 | | 2,73,000 |

| | | ₹ |
|---|---|---|
| **(2)** | **Value of Building** | ₹ |
| | Balance on 31st Dec. 2022 | 2,80,000 |
| | Paid during the year | (1,00,000) |
| | Balance on 31st Dec. 2021 | 1,80,000 |
| **(3)** | **Value of Equipment** | |
| | Balance on 31st Dec. 2022 | 1,02,000 |
| | Paid during the year | (34,000) |
| | Balance on 31st Dec. 2021 | 68,000 |
| **(4)** | **Subscription due for 2021** | |
| | Receivable on 31st Dec. 2021 | 13,000 |
| | Received in 2022 | (10,200) |
| | Still Receivable for 2022 | 2,800 |

**6. (a) Journal of V Kohli. Ltd.**

| 2022 | | | Dr. ₹ in lakhs | Cr. ₹ 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 ₹ 20 per share.) | | | |
| June 1 | Share Application 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 ₹ 20 share and ₹ 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<br>[Receipt of money due on allotment @ ₹ 30, also the two calls (₹ 30 and ₹ 20) on 30,000 shares.] | | | 15 |
| Nov. 1 | Share First Call A/c<br>To Share Capital A/c<br>(The amount due on 15 lakh shares @ ₹ 30 on first call, as per Directors, resolution no... dated...) | Dr. | 450 | 450 |
| | Bank A/c<br>Calls in Advance A/c<br>To Share First Call A/c<br>(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.<br>Dr. | 441<br>9 | 450 |
| 2023<br>March 1 | Share Final Call A/c<br>To Share Capital A/c<br>(The amount due on Final Call on 15 lakh shares @ ₹ 20 per share, as per Directors' resolution no... dated...) | Dr. | 300 | 300 |
| March1 | Bank A/c<br>Calls in Advance A/c<br>To Share Final Call A/c<br>(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.) | Dr.<br>Dr. | 294<br>6 | 300 |
| March 1 | Interest on calls in Advance A/c<br>To Shareholder A/c<br>(Being interest on call in advance made due) | Dr. | 0.99 | 0.99 |
| March 1 | Shareholder A/c<br>To Bank A/c<br>(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., 2022–5 months | 45,000 |
| ₹ 6,00,000 (final call) from 1st June to 1st March., 2023–9 months | 54,000 |
| Total Interest Amount Due | 99,000 |

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

**Journal Entries**

| *Date* | *Particulars* | | *Dr.* ₹ | *Cr.* ₹ |
|---|---|---|---|---|
| (a) | Bank A/c<br>To Debentures Application A/c | Dr. | 90,00,000 | 90,00,000 |

| | | | | |
|---|---|---|---|---|
| | (Being the application money received on 20,000 debentures @ ₹ 450 each) | | | |
| | Debentures Application A/c | Dr. | 90,00,000 | |
| | Discount on issue of Debentures A/c | Dr. | 10,00,000 | |
| | To 14% Debentures A/c | | | 1,00,00,000 |
| | (Being the issue of 20,000 14% Debentures @ 90% as per Board's Resolution No….dated….) | | | |
| (b) | Bank A/c | Dr. | 40,00,000 | |
| | To Bank Loan A/c (See Note) | | | 40,00,000 |
| | (Being a loan of ₹ 40,00,000 taken from bank by issuing debentures of ₹50,00,000 as collateral security) | | | |
| (c) | Fixed Assets A/c | Dr. | 40,00,000 | |
| | To Vendor A/c | | | 40,00,000 |
| | (Being the purchase of fixed assets from vendor) | | | |
| | Vendor A/c | Dr. | 40,00,000 | |
| | Discount on Issue of Debentures A/c | Dr. | 10,00,000 | |
| | To 14% Debentures A/c | | | 50,00,000 |
| | (Being the issue of debentures of ₹ 50,00,000 to vendor to satisfy his claim) | | | |

**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)** (i) Error of Commission.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Principle.