

Answer key

1. (A)

2. (C)

3. No doubt, money does not provide a stable measurement basis because it is influenced by inflation or deflation in the economy but still it is a useful measuring rod. Now-a-days, it is considered to provide additional data showing the effects of price level changes on the reported income, assets and liabilities of the business.

4.

Land & Building	Real Account
Excise Duty	Nominal Account
Creditor	Personal Account
Capital	Personal Account
Goodwill	Real Account
Bank Overdraft	Personal account

5. Accounting provides information about the profitability and financial soundness of the concern. In addition, it provides various other valuable information also. However, accounting has certain limitations.

Financial Accounting is that branch of accounting, which records financial transactions and events, summarizes and interprets them and communicates the results to the users.

Accounting ignores the effect of price level changes, may lead to window dressing and ignores the qualitative elements.

6. (a) Prudence

(b) no the management is justified. The going concern concept suggests the profits from the long-term projects to be recorded on yearly basis depending upon the degree of completion

7.

Vijay's income for the year First Year – Second Year is:

(i) He follows Cash Basis of Accounting = Current Year's Consultancy Received + Last Year's Consultancy Received – Current Year's Expenses Paid – Last Year's Expenses Paid

= Rs. 3,50,000 + Rs. 45,000 – (Rs. 1,70,000 – Rs. 40,000) – Rs. 20,000

= Rs. 2,45,000

(ii) He follows Accrual Basis of Accounting = Current Year's Consultancy Due – Current Year's Expenses Due

= Rs. 4,00,000 – Rs. 1,70,000

= Rs. 2,30,000

8.

(i) Initial Investment made by Gopal for starting the business of "Readymade Garments" is ` 8,00,000.

(ii) He bought two Fixed Assets i.e. Furniture and Computer of 50,000 each.

Therefore,

Total Fixed Assets bought by him = Furniture + Computer
= 50,000 + 50,000
= ` 1,00,000

(iii) Value of the goods purchased by Gopal (Proprietor) = Purchase of Garments + Purchase of Men's Garments

Value of the goods purchased by Gopal (Proprietor) = 4,00,000 + 2,00,000

Value of the goods purchased by Gopal (Proprietor) = ` 6,00,000

(vi) Satish is the creditor of business with ` 2,00,000.

(v) Rajesh is the debtor of the business with ` 1,50,000.

(vi) Total amount of Expenses = ` 15,000.