Allama Iqbal Open University AIOU B. Com / BA Solved Assignment NO 1 Autumn 2025

Code 438 Principles of Accounting

Q.1 i. What is meant by Non-Profit Making Concerns?

A Non-Profit Making Concern is an organization that is not established for earning profits but to promote social, cultural, educational, religious, or charitable objectives. The main aim of such an organization is to provide services to its members or the public rather than to make money for distribution among owners or shareholders. Examples include schools, colleges, hospitals, clubs, welfare organizations, libraries, religious institutions, and charitable trusts. These organizations are managed by trustees or committees, and any income earned through donations, subscriptions, or grants is used solely for achieving their objectives.

Non-profit organizations prepare special accounting records to show their financial performance. They usually maintain three main accounts: the Receipts and Payments Account, the Income and Expenditure Account, and the Balance Sheet. The Receipts and Payments Account records all cash transactions, the Income and Expenditure Account shows income and expenses on an accrual basis, and the Balance Sheet shows the financial position of the organization at the end of the year.

Unlike business organizations, non-profit concerns do not prepare a Trading or Profit and Loss Account because their purpose is not to calculate profit or loss. Instead, they determine the surplus or deficit. If income exceeds expenditure, the surplus is added to the capital or general fund, and if expenditure exceeds income, the deficit is deducted.

Non-profit organizations also rely heavily on voluntary contributions and public support. They are accountable to donors, members, and the public for how they use their funds. Therefore, proper accounting and transparency are very important. These organizations are often registered under laws related to charities or societies and must submit reports of their income and expenditure to the concerned authorities.

Q.1 ii. What is a Special Subscription?

A Special Subscription is a specific amount of money collected by a non-profit organization from its members, supporters, or the general public for a particular purpose or event. Unlike regular subscriptions that are collected periodically (for example, monthly or yearly) to meet routine expenses, a special subscription is collected once for a specific reason.

For instance, if a club wants to build a new hall, purchase sports equipment, or organize an anniversary celebration, it may ask its members to contribute a fixed amount called a special subscription. Similarly, a school may collect a special subscription to construct a new library or laboratory.

The accounting treatment of a special subscription depends on its purpose. If it is collected for a long-term purpose, such as building construction or the purchase of permanent assets, it is treated as a capital receipt and added to the Capital Fund in the Balance Sheet. However, if it is collected for a short-term event like a sports tournament or cultural show, it is treated as a revenue receipt and shown in the Income and Expenditure Account.

Special subscriptions are very important for non-profit organizations because they help in meeting extraordinary expenses that cannot be covered through regular income. They also reflect the support and trust of members and donors in the organization's mission and goals.

Q.1 iii. What do you mean by Legacy?

A Legacy refers to a gift of money or property that a non-profit organization receives from a deceased person through a will. It is a type of donation left behind by a donor who wishes to support the organization even after death. In accounting, a legacy is treated as a capital receipt because it is not a recurring income but a one-time benefit that strengthens the capital fund or general fund of the organization.

Legacies can be divided into two main types:

1. **General Legacy:** This is a fixed sum of money left by a person to the organization. For example, a donor may state in their will, “I leave Rs. 100,000 to the XYZ Welfare Trust.”

2. **Specific Legacy:** This refers to a specific asset or property left to the organization. For instance, a donor may gift land, a building, jewelry, or other valuable items.

When an organization receives a legacy, it records it as a capital receipt and adds it to the Capital Fund in the Balance Sheet. If the legacy is in the form of property or equipment, it is recorded under fixed assets at its estimated value.

Legacies are important because they provide long-term financial support and help in expanding the organization’s activities. Many charities, hospitals, and educational institutions receive significant funds through legacies, which help them build infrastructure, scholarships, and welfare programs. They also reflect the goodwill and trust that the public has in the organization’s mission and transparency.

Q.1 iv. What is a Statement of Affairs?

A Statement of Affairs is a financial statement that shows the assets and liabilities of an organization or individual on a particular date. It is similar to a Balance Sheet, but it is prepared when proper double-entry accounting books are not maintained. It helps in determining the capital or accumulated fund by finding the difference between total assets and total liabilities.

Non-profit organizations or small businesses often use the Statement of Affairs to know their financial position at the beginning or end of an accounting period. In the case of non-profit concerns, the opening Statement of Affairs helps in determining the capital fund, while the closing Statement of Affairs shows the position after considering all income, expenses, assets, and liabilities.

The format of the Statement of Affairs is quite simple. It lists all the assets on one side, such as cash, furniture, building, land, equipment, and investments, and all the liabilities on the other side, such as creditors, loans, and outstanding expenses. The excess of assets over liabilities represents the capital or accumulated fund.

A Statement of Affairs is also used in the Single Entry System of accounting to find out the profit or loss for a period. This is done by comparing the opening capital and the closing capital after adjusting for drawings and additional capital introduced.

In short, a Statement of Affairs provides an overall picture of the organization's financial health. It is especially useful for those who do not maintain detailed accounting records but still need to know their financial position for reporting or decision-making purposes.

Q.1 v. What is the Double-Entry System?

The Double-Entry System is the modern and scientific method of recording business transactions. It is based on the principle that every transaction has two aspects — a debit and a credit — and that for every debit entry, there must be an equal and corresponding credit entry. This ensures that the total debits always equal the total credits, maintaining the accuracy of the accounts.

The basic rule of the double-entry system is:

“For every debit, there is a corresponding credit of equal amount.”

This means that when a transaction occurs, it affects two accounts. For example, if a business purchases goods for cash, the Goods Account is debited (increase in assets), and the Cash Account is credited (decrease in assets).

The double-entry system is governed by the following rules:

1. **Personal Accounts:** Debit the receiver, Credit the giver.

2. **Real Accounts:** Debit what comes in, Credit what goes out.

3. **Nominal Accounts:** Debit all expenses and losses, Credit all incomes and gains.

   This system provides several advantages. It ensures accuracy and completeness, helps in detecting errors through trial balance, and provides a clear record of all financial transactions. It also facilitates the preparation of important financial statements like the Trading Account, Profit and Loss Account, and Balance Sheet.

Under the double-entry system, all transactions are first recorded in the Journal, then posted to the Ledger, and finally summarized in the Trial Balance. This process ensures that every aspect of the business is properly recorded and that the final accounts show the true financial position and performance.

The double-entry system is used by all types of organizations — profit and non-profit — because it provides reliable and accurate information. It helps management make better decisions, ensures accountability, and forms the basis for auditing and financial reporting.

Q.2 Mr. Furqan started a sole proprietorship business.Prepare the Journal for June 2025, post to Ledger and prepare the Trial Balance.

Journal Entries — June 2025

Date	Particulars (Dr → Cr)	L.F.	Debit (Rs.)	Credit (Rs.)
June 1	Cash A/c Dr. 5,600,000Building A/c Dr. 9,600,000 To Capital A/c (Being business commenced with cash and building)		15,200,000	15,200,000

Ju	Purchases A/c Dr. 400,000	400,0	400,0
ne	To Cash A/c (Being goods	00	00
3	purchased for cash)		
Ju	Furniture A/c Dr. 220,000	220,0	220,0
ne	To Miss Hareem (Creditor) A/c	00	00
6	(Being furniture purchased on		
	credit from Miss Hareem)		
Ju	Mr. Majid (Debtor) A/c Dr.	120,0	120,0
ne	120,000 To Sales A/c	00	00
8	(Being goods sold on credit to		
	Mr. Majid)		

Ju	Miss Hareem (Creditor) A/c Dr.	10,00	10,00
ne	10,000 To Furniture A/c	0	0
17	(Being goods returned to Miss		
	Hareem)		
Ju	Stationery Expense A/c Dr.	20,00	20,00
ne	20,000 To Cash A/c (Being	0	0
18	stationery purchased for cash)		
Ju	Sales Returns (Contra) A/c Dr.	12,00	12,00
ne	12,000 To Mr. Majid	0	0
22	(Debtor) A/c (Being goods		
	returned by Mr. Majid)		

June 28	Utilities Expense A/c Dr. 70,000 To Cash A/c (Being utility bills paid)	70,000	70,000
June 31	Salaries Expense A/c Dr. 70,000 To Cash A/c (Being salaries paid)	70,000	70,000

Ledger Accounts (T-accounts) — Postings

Cash A/c

Dr	Cr
June 1 — Capital (5,600,000)	June 3 — Purchases (400,000)
June 18 — Stationery (20,000)	June 28 — Utilities (70,000)
June 31 — Salaries (70,000)	

Balance c/d

5,040,000

Total 5,600,000 **Total** 5,600,000

Building A/c

Dr **Cr**

June 1 — Capital

(9,600,000)

Balance c/d

9,600,000

Total 9,600,000 **Total**

9,600,00

0

Capital A/c

Dr **Cr**

June 1 — Cash &

Building (15,200,000)

Total **Total**

15,200,00

0

Purchases A/c

Dr **Cr**

June 3 —

Cash

(400,000)

Balance c/d

400,000

Total 400,000 **Total**

400,000

Furniture A/c

Dr **Cr**

June 6 — Miss Hareem (220,000)	June 17 — Miss Hareem (10,000)
Balance c/d 210,000	
Total 220,000	**Total** 220,000

Miss Hareem (Creditor) A/c

Dr	**Cr**
June 17 — Furniture returned (10,000)	June 6 — Furniture purchased (220,000)

Balance c/d 210,000

(Cr)

Total 220,000 **Total** 220,000

Mr. Majid (Debtor) A/c

Dr	**Cr**
June 8 — Sales (120,000)	June 22 — Sales Returns (12,000)
Balance c/d 108,000	

Total 120,000 **Total** 120,000

Sales A/c

Dr	**Cr**
	June 8 — Mr. Majid (120,000)
Total	**Total** 120,000

Sales Returns (Contra) A/c

Dr	**Cr**

June 22 — Mr.

Majid (12,000)

Total 12,000 **Total**

12,000

Stationery Expense A/c

Dr **Cr**

June 18 —

Cash (20,000)

Total 20,000 **Total**

20,000

Utilities Expense A/c

Dr **Cr**

June 28 —

Cash (70,000)

Total 70,000 **Total**

70,000

Salaries Expense A/c

Dr **Cr**

June 31 —

Cash (70,000)

Total 70,000 **Total** 70,000

Balances carried to Trial Balance (as at 30/31 June 2025)

- Cash — Debit balance Rs. 5,040,000
- Building — Debit balance Rs. 9,600,000
- Purchases — Debit balance Rs. 400,000
- Furniture — Debit balance Rs. 210,000

- Mr. Majid (Debtor) — Debit balance Rs. 108,000
- Stationery Expense — Debit balance Rs. 20,000
- Utilities Expense — Debit balance Rs. 70,000
- Salaries Expense — Debit balance Rs. 70,000
- Sales Returns (Contra) — Debit balance Rs. 12,000
- Capital — Credit balance Rs. 15,200,000
- Miss Hareem (Creditor) — Credit balance Rs. 210,000

- Sales — Credit balance Rs. 120,000

Trial Balance as at 30/31 June 2025

Account Title	Debit (Rs.)	Credit (Rs.)
Cash	5,040,000	
Building	9,600,000	

Purchases	400,000
Furniture	210,000
Mr. Majid (Debtor)	108,000
Stationery Expense	20,000
Utilities Expense	70,000

Salaries Expense	70,000	
Sales Returns (Contra)	12,000	
Capital		15,200,000
Miss Hareem (Creditor)		210,000
Sales		120,000

Totals	**15,530,000**	**15,530,000**

(Trial Balance totals agree — Rs. 15,530,000 each side.)

Notes / brief explanations (embedded in entries above):

- Owner’s capital introduced on June 1 comprises cash Rs. 5,600,000 and building Rs. 9,600,000 (total Rs. 15,200,000).
- Furniture purchased on credit from Miss Hareem; later goods worth Rs. 10,000 were returned to her (reducing furniture and creditor).

- Sales to Mr. Majid Rs. 120,000; he returned goods worth Rs. 12,000 (recorded as Sales Returns, reducing his balance).

- Stationery, utilities and salaries are recorded as expenses and paid in cash.

Q.3 Define a Journal and elaborate on its goals and significance in the daily operations of a business.

A **Journal** is the first book of original entry used in accounting to record all financial transactions of a business in chronological order, that is, in the order in which they occur. It is often referred to as the **Book of Original Entry** or the **Day Book**, because it is the place where all business transactions are first recorded before they are posted to the ledger accounts. Each entry in the journal records the details of the transaction, including the date, the accounts involved, the amounts debited and credited, and a brief description called narration.

The process of recording transactions in the journal is known as **Journalizing**, and each record made is known as a **Journal Entry**. A journal entry follows the rules of the double-entry system — for every debit, there must be a corresponding credit of equal value. The basic format of a journal entry includes the following columns: Date, Particulars, Ledger Folio (L.F.), Debit Amount, and Credit Amount.

For example:

Date	**Particulars**	**L.F.**	**Dr (Rs.)**	**Cr (Rs.)**
June 1	Cash A/c Dr.		100,000	
To Capital A/c			100,000	

(Being business

started with cash)

This shows that the cash account is debited (as cash comes into the business), and the capital account is credited (as the owner contributes to the business).

Goals or Objectives of a Journal:

The main goals of maintaining a journal in business accounting are as follows:

1. **Systematic Recording of Transactions:**

   The primary goal of a journal is to record every business transaction in a systematic and chronological order. Every time a transaction occurs, it is recorded immediately in the journal with all necessary details. This prevents omission or duplication of transactions and provides a clear record for reference.

2. **Evidence of Transactions:**

   Each journal entry serves as documentary evidence of a financial transaction. The narration written below every entry explains the nature and reason for the transaction, providing legal and financial proof of the event. In case of any dispute or audit, journal entries can be used as reliable evidence.

3. **Facilitation of Ledger Posting:**

   The journal acts as a base for posting transactions into ledger accounts. Since all transactions are first recorded in the journal, it becomes easier for accountants to transfer them to respective ledger accounts systematically. This helps in maintaining accuracy in the ledger and final accounts.

4. **Application of the Double-Entry Principle:**
   The journal ensures that every transaction is recorded using the double-entry system, where each debit has a corresponding credit. This rule maintains the accounting equation (Assets = Liabilities + Capital) and ensures mathematical accuracy in financial statements.

5. **Prevention of Errors and Frauds:**
   By recording transactions daily with proper explanations, a journal helps prevent errors,

omissions, and fraudulent activities. Since every transaction must be supported by a valid explanation and evidence, it reduces the risk of manipulation or concealment of data.

6. **Providing a Permanent Record:**

   The journal provides a permanent and detailed record of all business transactions. It serves as a historical document that can be used for future reference, audits, investigations, or performance evaluations.

7. **Helping in Financial Analysis:**

   Journals provide detailed information about all financial activities. This helps the management in analyzing trends, controlling expenses, and making informed decisions based on actual data.

8. **Foundation for Preparing Final Accounts:**
 The journal is the foundation for all subsequent accounting processes. Information from the journal is posted to the ledger, from which the Trial Balance, Trading Account, Profit and Loss Account, and Balance Sheet are prepared. Without accurate journal entries, final accounts cannot be correct.

Significance of the Journal in Daily Business Operations:

The journal plays a vital role in the day-to-day accounting system of any business. Its significance can be elaborated as follows:

1. **Ensures Accuracy and Completeness:**
   By recording each transaction as soon as it occurs, the journal ensures that no transaction is left unrecorded. The use of the double-entry system guarantees that the books are mathematically balanced and accurate.

2. **Simplifies Daily Record-Keeping:**
   The journal helps businesses manage a large number of transactions easily. It provides a simple and organized way to document every exchange of money, goods, or services. This simplifies

bookkeeping and minimizes confusion, especially in organizations with frequent transactions.

3. **Supports Decision Making:**

   The data recorded in the journal provides insight into the daily operations of the business. Management can review journal entries to understand expenditure patterns, income sources, and financial commitments. This helps in making strategic decisions about budgeting, investments, and cost control.

4. **Basis for Financial Statements:**

   The accuracy of financial statements depends directly on the accuracy of journal entries. Since all ledgers and final accounts are prepared from journal data, the journal ensures that the information in the balance sheet and income statement truly represents the financial position and performance of the business.

5. **Legal and Audit Importance:**

   The journal serves as a legal document that can be presented as evidence in courts or during audits. It proves that transactions actually took place and were recorded according to accounting principles. This enhances the credibility of the business's financial records.

6. **Detection and Correction of Errors:**

   Journals help accountants detect and correct errors before transactions are posted to the ledger. If any entry is recorded incorrectly, it can be easily identified and rectified at the journal stage, preventing complications in later stages.

7. **Transparency and Accountability:**

   Since every transaction in the journal includes details of the accounts affected, amounts involved, and narration, it promotes transparency in business operations. This ensures accountability of employees and builds trust among investors, partners, and auditors.

8. **Helps in Internal Control:**

   Maintaining a detailed journal supports the internal control system of an organization. By having all transactions recorded with proper narration, management can verify and monitor financial activities regularly. It also helps prevent misuse of funds and supports proper financial discipline.

9. **Ease of Reference:**
   Since transactions are recorded in chronological order, the journal provides an easy reference for past events. This chronological arrangement helps accountants and auditors trace transactions quickly whenever verification or investigation is required.

10. **Foundation for Specialized Books:**
    The journal is the base for developing various specialized books such as the Cash Book, Sales Journal, Purchases Journal, and Returns Journal. These subsidiary books help businesses manage different types of transactions efficiently, but all are

based on the principles of the journal.

Conclusion:

In conclusion, the **Journal** is a cornerstone of the accounting process. It serves as the first and most important book of records in any business organization. It ensures that all transactions are systematically recorded, accurately classified, and properly explained. The goals of the journal include maintaining complete financial records, applying the double-entry system, providing evidence of transactions, preventing errors, and supporting the preparation of final accounts.

Its significance in daily business operations lies in its ability to provide transparency, accuracy, accountability, and a strong foundation for financial management. Without a journal, it would be impossible for a business to maintain orderly records, prepare accurate financial statements, or analyze its financial performance effectively. Thus, the journal not only records transactions but also strengthens the entire financial management system of a business.

Q.4 On July 1, 2022, Zahid purchased machinery for Rs. 900,000. Depreciation will be charged at 10% using both the Straight-line method and the Reducing-balance method each year. On October 31, 2025, the machinery was sold for Rs. 340,000 as it became useless. On the same date, he purchased new machinery for Rs. 200,000. Required: Prepare the Machinery Accounts from 2022 to 2025. Accounts close on 31st December every year.

Answer (Straight-Line Method — 10% p.a.)

Working (SLM):

Cost of machinery = Rs. 900,000. Annual depreciation @10% = Rs. 90,000 per full year. Depreciation is charged pro rata for partial years. Periods: 2022 (Jul 1–Dec 31) = 6 months; 2023 = 12 months; 2024 = 12 months; 2025 (Jan 1–Oct 31) = 10 months.

Depreciation amounts (SLM):

- 2022 (6/12) = 90,000 × 6/12 = **Rs. 45,000**
- 2023 (12/12) = **Rs. 90,000**
- 2024 (12/12) = **Rs. 90,000**
- 2025 (10/12) = 90,000 × 10/12 = **Rs. 75,000**

Total accumulated depreciation to date of sale (31-Oct-2025) = 45,000 + 90,000 + 90,000 + 75,000 = **Rs. 300,000**

Book value at date of sale (31-Oct-2025) = Cost − Accumulated Depreciation = 900,000 − 300,000 = **Rs. 600,000**

Sale proceeds = Rs. 340,000 → **Loss on sale = 600,000 − 340,000 = Rs. 260,000**

Journal entries (SLM):

1. 2022-07-01 Dr Machinery A/c 900,000; Cr Cash/Bank A/c 900,000 (purchase).

2. 2022-12-31 Dr Depreciation Expense A/c 45,000; Cr Accumulated Depreciation—Machinery 45,000.

3. 2023-12-31 Dr Depreciation Expense A/c 90,000; Cr Accumulated Depreciation—Machinery 90,000.

4. 2024-12-31 Dr Depreciation Expense A/c 90,000; Cr Accumulated Depreciation—Machinery 90,000.

5. 2025-10-31 Dr Depreciation Expense A/c 75,000; Cr Accumulated Depreciation—Machinery 75,000 (to bring depreciation up to date on date of disposal).

6. 2025-10-31 (on sale) Dr Cash/Bank A/c 340,000; Dr Accumulated Depreciation—Machinery 300,000; Dr Loss on Sale of Machinery 260,000; Cr Machinery A/c 900,000.

7. 2025-10-31 (purchase new machine) Dr Machinery A/c 200,000; Cr Cash/Bank A/c 200,000.

T-accounts (SLM)

Machinery A/c

Dr	Cr
2022-Jul-01 Capital/Cash (or Purchase) 900,000	2025-Oct-31 To Sale (Asset disposed) 900,000
2025-Oct-31 New Machinery (purchase) 200,000	
Balance carried down 200,000 (this is the new machinery balance)	

Accumulated Depreciation—Machinery A/c

Dr **Cr**

2022-Dec-31 Depreciation

45,000

2023-Dec-31 Depreciation

90,000

2024-Dec-31 Depreciation

90,000

2025-Oct-31 Depreciation

75,000

2025-Oct-31 (Transferred on disposal — Dr) 300,000		
Totals 300,000		300,000

Profit & Loss effect (SLM):

- Total depreciation charged (2022–2025 to date of sale): **Rs. 300,000** (expense across periods).
- Loss on sale recorded in 2025: **Rs. 260,000**.
- New machinery appears on the books at **Rs. 200,000** (balance sheet after 31-Oct-2025).

Answer (Reducing-Balance Method — 10% p.a.)

Working (RBM):

Depreciation each period = Opening book value × 10% × fraction of year.

Calculations (rounded to nearest rupee):

- Opening bv 1-Jul-2022 = Rs. 900,000.

  2022 (6 months): Dep = 900,000 × 10% × 6/12 = **Rs. 45,000** → BV after 2022 = 855,000.

  2023 (12 months): Dep = 855,000 × 10% = **Rs. 85,500** → BV after 2023 = 769,500.

  2024 (12 months): Dep = 769,500 × 10% = **Rs. 76,950** → BV after 2024 = 692,550.

  2025 (10 months to 31-Oct-2025): Dep = 692,550 ×

10% × 10/12 = 692,550 × 0.1 × 0.833333... = **Rs. 57,713** (rounded)

Total accumulated depreciation to date of sale = 45,000 + 85,500 + 76,950 + 57,713 = **Rs. 265,163**

Book value at date of sale (31-Oct-2025) = 900,000 − 265,163 = **Rs. 634,837**

Sale proceeds = Rs. 340,000 → **Loss on sale = 634,837 − 340,000 = Rs. 294,837**

Journal entries (RBM):

1. 2022-07-01 Dr Machinery A/c 900,000; Cr Cash/Bank A/c 900,000 (purchase).

2. 2022-12-31 Dr Depreciation Expense A/c 45,000; Cr Accumulated Depreciation—Machinery 45,000.
3. 2023-12-31 Dr Depreciation Expense A/c 85,500; Cr Accumulated Depreciation—Machinery 85,500.
4. 2024-12-31 Dr Depreciation Expense A/c 76,950; Cr Accumulated Depreciation—Machinery 76,950.
5. 2025-10-31 Dr Depreciation Expense A/c 57,713; Cr Accumulated Depreciation—Machinery 57,713 (to bring depreciation up to date).
6. 2025-10-31 (on sale) Dr Cash/Bank A/c 340,000; Dr Accumulated Depreciation—Machinery 265,163; Dr Loss on Sale of Machinery 294,837; Cr Machinery A/c

900,000.

7. 2025-10-31 (purchase new machine) Dr Machinery A/c 200,000; Cr Cash/Bank A/c 200,000.

T-accounts (RBM)

Machinery A/c

Dr	Cr
2022-Jul-01 Purchase 900,000	2025-Oct-31 To Sale (disposal) 900,000
2025-Oct-31 New Machinery (purchase) 200,000	

Balance c/d 200,000

Accumulated Depreciation—Machinery A/c

Dr	**Cr**
2025-Oct-31 (Transferred on disposal — Dr) 265,163	2022-Dec-31 Depreciation 45,000
2023-Dec-31 Depreciation 85,500	
2024-Dec-31 Depreciation 76,950	

2025-Oct-31 Depreciation

57,713

Totals 265,163 265,163

Profit & Loss effect (RBM):

- Total depreciation charged (2022–2025 to date of sale): **Rs. 265,163**.
- Loss on sale recorded in 2025: **Rs. 294,837**.
- New machinery recorded at **Rs. 200,000** (balance sheet after 31-Oct-2025).

Summary (comparison of the two methods at date of disposal 31-Oct-2025):

- Accumulated depreciation (SLM) = **Rs. 300,000**; Book value = **Rs. 600,000**; Loss on sale = **Rs. 260,000**.

- Accumulated depreciation (RBM) = **Rs. 265,163**; Book value = **Rs. 634,837**; Loss on sale = **Rs. 294,837**.

Notes / Remarks:

1. Depreciation is charged pro rata for the first and last accounting periods (2022 and 2025). Accounts close on 31st December each year; therefore depreciation for 2025 was charged up to the disposal date

(31-Oct-2025).

2. On disposal, the accumulated depreciation account is debited to remove accumulated charges; machinery account is credited to remove cost; difference between net book value and sale proceeds is taken to profit & loss (gain or loss). Here both methods produce a **loss**, but amounts differ because RBM and SLM allocate depreciation differently over time.

3. The new machinery (Rs. 200,000) purchased on 31-Oct-2025 remains on the books and will be depreciated from 1-Nov-2025 (or prorated from 31-Oct if policy demands); for simplicity we recorded it at cost on that date.

Q.5(a) How does Pakistani culture influence the popularity of partnership businesses?

Pakistani culture plays a very important role in shaping the popularity, structure, and sustainability of partnership businesses across the country. The economic landscape of Pakistan, especially in small and medium enterprises (SMEs), is deeply influenced by cultural values, traditions, family ties, trust, and social behavior. A partnership business in Pakistan is a form of business where two or more people agree to carry on a business together and share its profits and losses. This form of business organization suits the social and cultural context of Pakistan, where cooperation, kinship, and shared responsibilities are part of the traditional lifestyle. The cultural influence on partnership businesses can be analyzed through various aspects such as family values, religion, social trust, interpersonal relationships, and collective decision-making practices.

In Pakistani society, the family is the most significant social institution. Families are extended and close-knit, with strong emotional and financial connections. People prefer to engage in business with their relatives, friends, or trusted community members because of mutual understanding, shared background, and established trust. This deeply rooted family-oriented culture supports the idea of partnership businesses, where individuals can pool resources and share responsibilities without fear of deceit. For instance, in many cities like Karachi, Faisalabad, and Lahore, small factories, retail shops, and wholesale businesses are often run by brothers, cousins, or close friends. Such arrangements are not merely business relationships but extensions of family cooperation. Therefore, Pakistani culture, with its emphasis on family bonding and trust, enhances the popularity of partnership businesses.

Another important factor that strengthens partnership businesses in Pakistan is the influence of Islamic teachings and moral values. Islam encourages mutual cooperation, trust, and fair dealing, which are key characteristics of partnership business. The concept of *Musharakah* in Islamic finance is similar to the partnership model, where partners share profits and losses according to pre-agreed ratios. Since Pakistan is an Islamic country, many people prefer such arrangements that are aligned with their religious beliefs. Cultural acceptance of Islamic financial ethics makes partnership a more respected and morally sound business form. People believe that through partnership, the burden of investment and decision-making is shared, and blessings (*barakah*) increase because of collective efforts, which is a significant cultural notion in Pakistani society.

Social trust is another critical aspect of Pakistani culture that supports the partnership business model. In rural areas and small towns, formal contracts or legal documentation are often minimal, yet businesses operate successfully because of strong personal trust, reputation, and verbal agreements. This cultural practice of relying on social honor and word of mouth encourages partnership businesses. Many people prefer forming partnerships with individuals from their own communities or biradaris (clans) because they share the same social background and values. This cultural reliance on social bonds and informal agreements reduces the hesitation to start joint ventures. The mutual accountability that arises from community pressure also ensures smooth functioning of such partnerships.

Moreover, the collective nature of Pakistani society encourages cooperation and teamwork rather than individualism. People are accustomed to working together, seeking advice from elders, and making collective decisions. This cultural tendency towards collectivism supports the partnership structure where all partners contribute ideas, expertise, and resources. In contrast to Western cultures that prioritize individual entrepreneurship and personal gain, Pakistani culture values group success and shared prosperity. This mindset makes partnerships more appealing since partners can complement each other’s skills and compensate for individual weaknesses. For example, one partner may handle finances while another manages customers or operations, resulting in a balanced management style influenced by cultural collaboration.

Cultural respect for experience and seniority also shapes partnerships in Pakistan. Older or more experienced family members or businessmen often become managing partners, while younger ones assist in operations or learning the trade. This hierarchical respect ensures stability and continuity in partnerships. Many traditional businesses in Pakistan, such as textile mills, jewelry shops, real estate agencies, and construction firms, are passed down through generations and managed as family partnerships. The respect for elders and preference for family leadership, deeply embedded in Pakistani culture, makes partnerships a sustainable business model across generations.

Additionally, Pakistan's culture values hospitality, interpersonal relationships, and reputation in society. Business success in Pakistan often depends on how well partners maintain customer relations, social image, and trust within the community. Partnership businesses benefit from the collective social networks of all partners. Since each partner brings their social circle, the business gains a broader customer base and reputation. In Pakistani markets, reputation and word-of-mouth play a more powerful role than formal advertising. Thus, culturally, partnership businesses thrive on mutual goodwill and shared social standing, which reinforces their popularity.

However, the same cultural characteristics that make partnerships popular also bring some challenges. Emotional decision-making, favoritism, and lack of formal agreements can lead to misunderstandings among partners. Family-based partnerships sometimes suffer when personal conflicts or inheritance issues arise. Yet, despite these issues, the cultural comfort and sense of security provided by known and trusted partners make this form of business preferable to sole proprietorships or corporations, especially for small and medium enterprises.

In urban areas, although modern businesses and corporations are growing, partnership firms still dominate sectors like trade, retail, services, and manufacturing because they align with Pakistan’s cultural mindset of cooperation, shared investment, and trust. Partnerships provide flexibility, shared risk, and moral satisfaction of working with trusted people — values that resonate strongly with the Pakistani cultural framework.

In conclusion, Pakistani culture, rooted in family ties, religion, trust, collectivism, and respect for relationships, significantly contributes to the popularity of partnership businesses. It offers social comfort, moral support, and economic cooperation, making partnerships not just a business choice but a cultural expression of unity and shared prosperity. This harmony between cultural traditions and business structure continues to make partnerships a vital and trusted form of enterprise in Pakistan, both in rural and urban settings.

Q.5(b) If the profits for the last five years are Rs. 190,000; Rs. 192,000; Rs. 181,000; Rs. 175,000; and Rs. 170,000 — calculate goodwill by the average profit method and the 4-year purchase of that average profit.

Answer:

1. **Total profit for 5 years** = 190,000 + 192,000 + 181,000 + 175,000 + 170,000

   = 908,000.

2. **Average annual profit** = Total profit ÷ Number of years

   = 908,000 ÷ 5

   = **Rs. 181,600.**

3. **Goodwill (4-year purchase of average profit)** =

   Average annual profit × 4

   = 181,600 × 4

   = **Rs. 726,400.**

Therefore, the average profit is **Rs. 181,600** and the goodwill (4 years' purchase) is **Rs. 726,400**.