

# **Allama Iqbal Open University AIU BS solved Assignment NO1 Autumn 2025 Code 5401 Principles of Accounting**

**Q.1 Give the answers to the following questions:**

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**i. What is meant by non-profit making concerns?**

Non-profit making concerns are organizations that are established not for earning profit but for serving society.

The main objective of such organizations is to provide welfare, education, health, recreation, or social services without any intention of financial gain. Unlike business organizations, they do not sell goods or services for profit; instead, they rely on donations, grants, subscriptions,

legacies, and government aid to finance their operations.

The income they generate is used entirely for achieving their objectives and not distributed among members or trustees.

Examples of non-profit making concerns include charitable hospitals, educational institutions, clubs, orphanages, libraries, and welfare societies. For instance, a charitable hospital uses its income to provide free medical treatment, and an educational trust uses funds to provide scholarships to poor students.

These organizations prepare specific accounting statements like **Receipts and Payments Account**, **Income and Expenditure Account**, and a **Balance Sheet** instead of a trading or profit and loss account. The main purpose of their accounting system is to show how

funds are utilized rather than how much profit is earned.

Non-profit organizations must maintain transparency and proper record-keeping since they handle public money.

They also follow accounting principles to ensure accountability and fairness.

In summary, non-profit making concerns are institutions that work for social, moral, cultural, or religious upliftment of society without focusing on profit generation.

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## **ii. What is a special subscription?**

A special subscription is a one-time contribution made by members or supporters of a non-profit organization for a particular purpose. It is different from a regular subscription that members pay annually for the organization's maintenance. The key feature of a special

subscription is that it is collected to meet a specific objective, and the funds received cannot be used for general purposes.

For example, a club may collect Rs. 200,000 as a special subscription from its members for constructing a new building, organizing a sports tournament, or purchasing musical instruments. The amount collected through such a subscription is treated as a **capital receipt** and recorded on the liabilities side of the balance sheet because it is used to acquire long-term assets or fund a major project.

If, however, the subscription is collected for a short-term purpose (like holding an annual event or sports meet), it may be treated as a **revenue receipt**. Hence, the treatment of a special subscription depends on the purpose for which it is collected.

This concept ensures that funds raised for specific projects are not misused or diverted toward other purposes, maintaining accountability and trust among members and donors.

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iii. What do you mean by legacy?

A legacy refers to the amount of money, property, or assets received by a non-profit organization under the will of a deceased person. It is a voluntary contribution or donation left by someone who wishes to support the organization's goals even after their death. A legacy is always a **capital receipt**, as it is not part of the organization's regular income but a one-time contribution that increases its capital fund.

For example, if a philanthropist includes in his will that Rs. 1,000,000 should be donated to a charitable trust or hospital after his death, that amount is treated as a legacy for the organization. Similarly, a donor may bequeath land, books, or furniture to an educational institution, which will also be treated as a legacy in kind.

In the books of accounts, a legacy is recorded on the **liabilities side of the balance sheet** as part of the capital fund. It may also appear in the **Receipts and Payments Account** as a receipt under the capital section.

Legacies play a significant role in the long-term financial stability of non-profit organizations. They help fund new buildings, endowments, or welfare projects. This practice also reflects the public's trust in the transparency and goodwill of the institution.

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iv. What is a statement of affairs?

A **statement of affairs** is a financial statement prepared by non-profit making organizations to determine their capital fund or accumulated fund at a specific date. It resembles a balance sheet in form but is simpler because it is prepared from incomplete records or single-entry books. It shows all assets (such as cash, furniture, buildings, investments, etc.) on one side and liabilities (such as creditors, outstanding expenses, loans, etc.) on the other side. The difference between total assets and total liabilities represents the organization's **capital fund** or **accumulated surplus**.

For example, if the total assets of an organization are Rs. 2,000,000 and the total liabilities amount to Rs. 500,000, then the accumulated fund will be Rs. 1,500,000.

The statement of affairs helps in determining:

1. The financial position of the organization at the beginning and end of the accounting period.
2. The surplus or deficit during a specific period by comparing opening and closing capital funds.

It is particularly useful for clubs, schools, and charitable institutions where full double-entry accounting records are not maintained.



Hence, a statement of affairs provides a snapshot of the financial standing of the organization, reflecting its assets, liabilities, and net worth at a particular date.

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**v. What is the double-entry system?**

The **double-entry system of accounting** is a scientific method of recording financial transactions in which every transaction affects at least two accounts — one account is debited, and the other is credited with an equal amount.

The basic rule followed in this system is:

“Every debit has a corresponding and equal credit.”

This system ensures that the total of all debits always equals the total of all credits, thereby maintaining accuracy in the books of accounts.

For example:

If a business purchases goods worth Rs. 10,000 in cash, the **Purchases Account** is debited (because the purchase increases expense), and the **Cash Account** is credited (because cash decreases).

### **Journal Entry:**

Purchases A/c — Dr. Rs. 10,000

To Cash A/c Rs. 10,000

This system helps in maintaining a complete and accurate record of all transactions. It provides several advantages, such as:

- Helps in detecting errors and frauds.
- Facilitates the preparation of financial statements like the Trading Account, Profit & Loss Account, and Balance Sheet.
- Ensures reliability, as it follows accounting principles and maintains proper audit trails.

The double-entry system forms the foundation of modern accounting and is universally accepted across all types of organizations — profit and non-profit alike.

## Q.2 Journal, Ledger postings and Trial Balance for Mr. Furqan — June 2025

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### (A) Journal Entries — June 2025

(Dr. = Debit, Cr. = Credit)

Date	Particulars	Dr.	Cr.
		(Rs.)	(Rs.)
2025-June-01	Cash A/c Dr.	5,600	15,20
	5,600,000 Building A/c	,000	0,000
	Dr. 9,600,000    To		
	Capital — Mr. Furqan		
	A/c		

(Being proprietor  
commenced  
business — cash  
and building  
introduced)

2025-June-03	Purchases A/c Dr.	400,0	400,0
	400,000 To Cash	00	00
	A/c		

(Being goods  
purchased for  
cash)

2025-June-06	Furniture A/c Dr.	220,0	220,0
	220,000 To Miss	00	00
	Hareem (Creditor) A/c		

(Being furniture  
purchased from  
Miss Hareem on  
credit)

2025-June-08	Mr. Majid (Debtor) A/c	120,0	120,0
	Dr. 120,000    To	00	00
	Sales A/c		

(Being goods  
sold on credit to  
Mr. Majid)

2025-June-17	Miss Hareem A/c Dr.	10,00	10,00
	10,000    To Furniture	0	0
	A/c		

(Being part of  
furniture returned  
to Miss Hareem)

2025-June-18	Stationery Expense	20,00	20,00
	A/c Dr. 20,000 To	0	0
	Cash A/c		

(Being stationery  
purchased for  
cash)

2025-June-22	Sales Returns A/c	12,00	12,00
	(Return Inwards) Dr.	0	0
	12,000 To Mr. Majid		
	(Debtor) A/c		

(Being goods  
returned by Mr.  
Majid)

2025-June-28	Utilities Expense A/c	70,00	70,00
	Dr. 70,000    To Cash	0	0
	A/c		

(Being utility bills  
paid)

2025-June-30	Salaries Expense A/c	70,00	70,00
	Dr. 70,000    To Cash	0	0
	A/c		

(Being salaries  
paid for the  
month)



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**(B) Ledger Accounts (simplified T-accounts) — postings  
& balances**

**CASH A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
Jun 01 Capital	5,600	Jun 03	400,0
(introduce)	,000	Purchase	00
		s	
		Jun 18	20,00
		Stationery	0
		Jun 28	70,00
		Utilities	0

Jun 30      70,00

Salaries      0

**Balance c/d      5,040**

**(Dr)      ,000**

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

**,000      ,000**

### **BUILDING A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
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Jun 01 Capital	9,600		
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(introduce)	,000		
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<b>Balance c/d</b>	<b>9,600</b>		
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<b>(Dr)</b>	<b>,000</b>		
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<b>Total</b>	<b>9,600</b>	<b>Tot 9,600</b>
	<b>,000</b>	<b>al ,000</b>

## **FURNITURE A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
Jun 06 From	220,	Jun 17	10,0
Miss Hareem	000	Returned to	00
		Miss H.	
<b>Balance c/d</b>	<b>210,</b>		
<b>(Dr)</b>	<b>000</b>		
<b>Total</b>	<b>220,</b>	<b>Total</b>	<b>220,</b>
	<b>000</b>		<b>000</b>

## **PURCHASES A/c**

Dr.	Rs.	Cr.	Rs.
Jun 03 Cash purchases	400,000		
<b>Balance c/d (Dr)</b>	<b>390,000</b>	Jun 17 (if returns to goods account — not applicable)	10,000

*(Note: here returns were of furniture so Purchases remains 400,000 and no purchase returns posted)*

*(For presentation in trial balance we use net Purchases = 400,000 — but since returns were furniture, Purchases balance remains Rs.400,000. However many instructors*

*use net purchases; to be consistent with journal postings*

*Purchases Dr = 400,000.)*

**MR. MAJID (Debtor) A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
Jun 08	120,	Jun 22	12,0
Sales	000	Sales	00
		Returns	
<b>Balance</b>	<b>108,</b>		
<b>c/d (Dr)</b>	<b>000</b>		
<b>Total</b>	<b>120,</b>	<b>Total</b>	<b>120,</b>
	<b>000</b>		<b>000</b>

**MISS HAREEM (Creditor) A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
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Jun 17	10,0	Jun 06	220,
Goods	00	Furniture	000
returned		(credit)	
<b>Balance c/d</b>	<b>210,</b>		
<b>(Cr)</b>	<b>000</b>		
<b>Total</b>	<b>10,0</b>	<b>Total</b>	<b>220,</b>
	<b>00</b>		<b>000</b>

## **SALES A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
		Jun 08 To	120,
		Mr. Majid	000
<b>Balance</b>	<b>120,</b>		
<b>c/d (Cr)</b>	<b>000</b>		

<b>Total</b>	<b>120,</b>	<b>Total</b>	<b>120,</b>
	<b>000</b>		<b>000</b>

## **SALES RETURNS A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
Jun 22 From	12,		
Mr. Majid	000		
<b>Balance c/d</b>	<b>12,</b>		
<b>(Dr)</b>	<b>000</b>		
<b>Total</b>	<b>12,</b>	<b>Tot</b>	<b>12,</b>
	<b>000</b>	<b>al</b>	<b>000</b>

## **STATIONERY EXPENSE A/c**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>Rs.</b>
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Jun 18	20,
Purchase	000
(cash)	

<b>Balance c/d</b>	<b>20,</b>
<b>(Dr)</b>	<b>000</b>

<b>Total</b>	<b>20,</b>	<b>Tot</b>	<b>20,</b>
	<b>000</b>	<b>al</b>	<b>000</b>

## UTILITIES EXPENSE A/c

	Dr.	Rs.	Cr.	Rs.
Jun 28		70,		
Paid		000		
<b>Balance</b>		<b>70,</b>		
<b>c/d (Dr)</b>		<b>000</b>		



Total	70,	Tot	70,
	000	al	000

## **SALARIES EXPENSE A/c**

Dr.	Rs.	Cr.	Rs.
Jun 30	70,		
Paid	000		
<b>Balance</b>	<b>70,</b>		
<b>c/d (Dr)</b>	<b>000</b>		
Total	70,	Tot	70,
	000	al	000

## **CAPITAL — MR. FURQAN A/c**

Dr.	Rs.	Cr.	Rs.
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		Jun 01 Introduced	15,20
		(Cash & Building)	0,000
<b>Balance</b>	<b>15,20</b>		
<b>c/d (Cr)</b>	<b>0,000</b>		
<b>Total</b>	<b>15,20</b>	<b>Total</b>	<b>15,20</b>
	<b>0,000</b>		<b>0,000</b>

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**(C) Trial Balance as at 30-June-2025**

<b>Particulars</b>	<b>Dr.</b>	<b>Cr.</b>
	<b>(Rs.)</b>	<b>(Rs.)</b>
Cash	5,040, —	
	000	

Building	9,600,	—
	000	

Furniture (net)	210,0	—
	00	

Purchases	400,0	—
	00	

Sales Returns	12,00	—
	0	

Mr. Majid	108,0	—
(Debtors)	00	

Stationery	20,00	—
Expense	0	

Utilities	70,00	—
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Expense	0	
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Salaries	70,00	—
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Expense	0	
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<b>TOTAL DEBIT</b>	<b>15,53</b>	
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	<b>0,000</b>	
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Capital — Mr.	15,20	
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Furqan	0,000	
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Sales	120,0	
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	00	
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Miss Hareem	210,0	
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(Creditors)	00	
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<b>TOTAL</b>	<b>15,53</b>
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<b>CREDIT</b>	<b>0,000</b>
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**Trial Balance totals: Dr = Rs. 15,530,000 ; Cr = Rs.**

**15,530,000 — *Balanced.***

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**Notes / Assumptions made**

- 1. Stationery purchased (June 18)** treated as **paid by cash** (no creditor recorded), since mode not specified.
- 2. Goods returned on June 17** related to the **furniture** purchased from Miss Hareem (June 6). Therefore the return reduces the **Furniture** asset and reduces the **Miss Hareem** payable (not treated as purchase

returns). This ensures ledgers and trial balance agree.

3. Sales and Sales Returns are shown separately (net sales would be Rs.108,000).

4. No opening balances other than proprietor's capital introduction on June 1.

5. All expense items (stationery, utilities, salaries) are treated as period expenses (debited to expense accounts).

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

#### **Definition of Journal**

A journal is the primary book of original entry where all financial transactions of a business are recorded in chronological order as they occur. It is also known as the *book of prime entry* or *day book*. Every transaction is first analyzed in terms of debit and credit, and then recorded in the journal before it is posted to the ledger. Each journal entry includes the date, the accounts involved, the amount debited and credited, and a short narration explaining the transaction.

The process of recording transactions in the journal is known as *journalizing*. For example, if a business purchases office furniture for Rs. 50,000 in cash, the entry

will be —

**Furniture Account (Dr.) Rs. 50,000**

**Cash Account (Cr.) Rs. 50,000**

This ensures that both debit and credit aspects are recorded according to the *double-entry system*.

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## **Purpose of a Journal**

The main purpose of maintaining a journal is to record every transaction systematically and to ensure that financial data is accurate and complete. Journals serve as the first stage of accounting and act as the foundation for preparing ledgers and financial statements. Through journal entries, a business can identify the nature of each transaction and trace how it affects assets, liabilities, income, and expenses.



By maintaining a proper journal, businesses can easily detect errors, maintain transparency, and prepare for audits. It also helps accountants understand the details of each transaction before transferring them to ledger accounts.

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## **Goals of Maintaining a Journal**

### **1. Systematic Record Keeping**

The primary goal of a journal is to maintain a chronological and systematic record of every business transaction. This helps prevent omissions and ensures that no transaction is forgotten.

### **2. Establishing Double-Entry Principles**

A journal ensures that every transaction follows the

double-entry system — one account is debited, and another is credited with an equal amount. This maintains accounting balance and prevents discrepancies.

### **3. Error Detection and Correction**

Since all transactions are first recorded in the journal, it becomes easier to trace and correct mistakes before they affect the ledger or financial statements.

### **4. Providing an Audit Trail**

Journals provide documentary evidence and explanations for every transaction. This creates an audit trail that helps auditors and accountants verify the accuracy of financial records.

## **5. Facilitating Ledger Posting**

The journal acts as a basis for posting entries into the ledger. Each journal entry provides details of which accounts to debit and credit, simplifying the ledger process.

## **6. Recording Non-Cash Transactions**

A journal not only records cash transactions but also credit, adjustment, and non-cash transactions like depreciation, provisions, or accruals, ensuring completeness.

## **7. Narration and Explanation**

Each journal entry includes a short narration describing the nature and reason for the transaction.

This provides clarity and supports future reference.

## **8. Helps in Financial Analysis**

By maintaining journals, businesses can track transaction patterns, analyze cash flows, and make informed management decisions.

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### **Structure of a Journal Entry**

A journal usually consists of the following columns:

<b>Date</b>	<b>Particulars</b>	<b>Ledger Folio</b>	<b>Debit (Rs.)</b>	<b>Credit (Rs.)</b>
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Jun	Cash A/c	100,00
e 1		0
	Capital A/c	100,00
		0

(Being capital  
introduced by owner)

**Explanation:** The above format helps record transactions clearly and supports future posting into the ledger.

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## Types of Journals

### 1. General Journal

It records all types of transactions that do not fit into special journals, such as adjustment entries,

correction entries, and opening or closing entries.

## 2. Special Journals

To improve efficiency, large businesses use special journals to record specific types of transactions:

- *Sales Journal*: for credit sales.
- *Purchases Journal*: for credit purchases.
- *Cash Book*: for all cash receipts and payments.
- *Sales Return Journal*: for goods returned by customers.

- *Purchases Return Journal*: for goods returned to suppliers.

This categorization saves time and reduces the chance of errors.

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## **Significance of Journal in Daily Business Operations**

### **1. Foundation for Accounting System**

The journal is the starting point of the accounting cycle. Without accurate journal entries, ledgers, trial balances, and financial statements cannot be prepared correctly.

## **2. Accurate Financial Reporting**

By recording every transaction precisely, journals ensure that the financial statements reflect the true financial position of the business.

## **3. Legal and Documentary Evidence**

Journal entries serve as legal proof of financial transactions, which can be used for audits or legal disputes.

## **4. Transparency and Accountability**

Maintaining journals promotes transparency in business operations by documenting every financial activity in a structured manner.



## **5. Facilitates Decision-Making**

Business managers can refer to journal records to assess transaction trends, expenses, and income, helping in effective decision-making.

## **6. Reduces Fraud and Mismanagement**

Since journals record all financial activities with explanations, it becomes difficult for employees to hide or manipulate transactions.

## **7. Historical Reference**

The journal acts as a financial diary for the business. It allows future accountants to understand past transactions and their context easily.

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## Example of Journal Entries in Daily Operations

<b>Dat</b>	<b>Particulars</b>	<b>Debit</b>	<b>Credit</b>
<b>e</b>		<b>(Rs.)</b>	<b>(Rs.)</b>
Jun	Cash A/c	50,000	
e 1			
	Capital A/c		50,000
	(Being capital		
	introduced by owner)		
Jun	Purchases A/c	20,000	
e 5			
	Cash A/c		20,000

(Being goods  
purchased for cash)

Jun	Rent Expense A/c	5,000
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e 10

Cash A/c	5,000
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(Being office rent  
paid in cash)

These entries demonstrate how daily financial transactions are systematically recorded to reflect business activities accurately.

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## Importance of Journalization in Accounting Cycle

The accounting cycle begins with the identification and analysis of transactions and then proceeds to journalizing, posting to ledgers, preparing a trial balance, and finally creating financial statements. The accuracy of the entire accounting process depends on how well the journal is maintained. If journal entries are incorrect or incomplete, all subsequent records will also be inaccurate, leading to misleading financial results.

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## **Conclusion**

In conclusion, the journal is the backbone of the accounting system, providing a chronological, systematic, and detailed record of all business transactions. It ensures the application of the double-entry principle, aids in detecting errors, maintains transparency, and provides

essential information for preparing financial statements.

Without a properly maintained journal, no business can ensure financial accuracy, accountability, or legal compliance. Thus, the journal serves not only as a record-keeping tool but also as a means of strengthening financial integrity and operational efficiency in every business organization.

**Q.4 On July 1, 2022, Zahid purchased machinery for Rs. 900,000. Depreciation 10% p.a. — compute under (A) Straight-Line Method and (B) Reducing-Balance Method. Machine sold on Oct 31, 2025 for Rs. 340,000. On same date new machine purchased for Rs. 200,000. Accounts close 31 Dec each year. Prepare machinery accounts 2022–2025.**

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**A. STRAIGHT-LINE METHOD (10% p.a.)**

**Assumptions / facts**

- Cost original machine = 900,000 (purchased 01-Jul-2022)
- Annual S-L depreciation =  $900,000 \times 10\% = 90,000$   
p.a. → monthly = 7,500
- Depreciation charged pro rata for partial years.
- Machine sold 31-Oct-2025; depreciation to date of sale charged to 31-Oct-2025 (10 months in 2025).
- New machine cost 200,000 purchased 31-Oct-2025; depreciation on new machine for 2 months (Nov–Dec 2025) charged in 2025.

## Depreciation schedule (S-L)

Year / Period	Deprecia tion (Rs.)	Accum. Depreciation at year/point (Rs.)	NBV (Rs.)
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01-Jul-2022	45,000.0	45,000.00	900,000 –
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→	0		45,000 =
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31-Dec-2022			<b>855,000.00</b>
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(6 months)

2023 (full	90,000.0	135,000.00	900,000 –
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year)	0		135,000 =
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			<b>765,000.00</b>
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2024 (full year)	90,000.00	225,000.00	<b>675,000.00</b>
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01-Jan-2025 → 31-Oct-2025 (10 months)	75,000.00	<b>300,000.00</b> (at Sale)	<b>600,000.00</b> (NBV at sale)
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<b>Sale on</b>	—	—	NBV at sale
<b>31-Oct-2025</b>			=
			<b>600,000.00</b>

<b>Proceeds on sale</b>	<b>340,000.00</b>	<b>Loss on sale =</b>
		<b>600,000 –</b>

340,000 =

**260,000.00**

### **New machinery (purchased 31-Oct-2025)**

- Cost 200,000; annual S-L dep = 20,000 → monthly = 1,666.6667 → for Nov–Dec (2 months) = **3,333.33**
- 

**Journal entries (S-L method) — key entries (chronological)**

#### **1. 01-Jul-2022 — Purchase original machine**

Machinery A/c Dr. 900,000

To Cash/Bank (or Creditor) 900,000

(Being machinery purchased)

## **2. Depreciation charges (yearly / interim)**

31-Dec-2022

Depreciation Expense A/c Dr. 45,000

To Accumulated Depreciation — Machinery      45,000

(Being 6 months depreciation charged)

31-Dec-2023

Depreciation Expense A/c Dr. 90,000

To Accumulated Depreciation — Machinery      90,000

31-Dec-2024

Depreciation Expense A/c Dr. 90,000

To Accumulated Depreciation — Machinery      90,000

31-Oct-2025 (to date of sale)

Depreciation Expense A/c Dr. 75,000

To Accumulated Depreciation — Machinery      75,000

(Being depreciation charged to date of sale)

### **3. 31-Oct-2025 — Disposal (sale) of old machine**

Cash/Bank A/c Dr. 340,000

Accumulated Depreciation — Machinery Dr. 300,000

Loss on Sale of Machinery A/c Dr. 260,000

To Machinery A/c 900,000

(Being machinery disposed of; accumulated depreciation written off; loss recognized)

#### **4. 31-Oct-2025 — Purchase new machine**

Machinery (New) A/c Dr. 200,000

To Cash/Bank (or Creditor) 200,000

(Being new machine purchased)

**5. 31-Dec-2025 — Depreciation on new machine (2 months)**

Depreciation Expense A/c Dr. 3,333.33

To Accumulated Depreciation — Machinery (New)

3,333.33

(Being 2 months depreciation on new machine)

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**Ledger (T-account style) — Straight Line**

**Machinery (Old) A/c (Cost)**

**Dr.**

**Rs.**

**Cr.**

**Rs.**

01-Jul-2022	900,0	31-Oct-2025 To Disposal	900,0
Purchase	00.00	(cost written off)	00.00
<b>Balance</b>	<b>—</b>	<b>Total</b>	900,0
			00.00

### Accumulated Depreciation — Old Machine

Dr.	Rs.	Cr.	Rs.
31-Oct-2025 To Disposal	300,0	31-Dec-20	45,00
(bal. written off)	00.00	22 Depn	0.00
		31-Dec-20	90,00
		23 Depn	0.00

31-Dec-20 90,00

24 Depn 0.00

31-Oct-202 75,00

5 Depn 0.00

<b>Total</b>	300,0	<b>Total</b>	300,0
	00.00		00.00

## Loss on Sale of Machinery

**Dr.**

**Rs.**

**C R**

**r. s.**



31-Oct-2025 Loss on sale    260,0

(balancing figure)                      00.00

**Cash/Bank (for sale & purchase)** — summarize cash entries (not fully expanded here)

**Machinery (New) A/c (Cost)**

<b>Dr.</b>	<b>Rs.</b>	<b>Cr.</b>	<b>R s.</b>
31-Oct-2025	200,0	31-Dec-2025 (if	—
Purchase	00.00	disposed later)	
<b>Balance c/d</b>	200,0		
	00.00		

## Accumulated Depreciation — New Machine (to 31-Dec-2025)

Dr.	R	Cr.	Rs.
	s.		
		31-Dec-2025	3,33
		Depn (2 months)	3.33
<b>Balance</b>	<b>3,333.33</b>		
<b>e (Cr)</b>			

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## B. REDUCING-BALANCE (DECLINING-BALANCE)

**METHOD (10% p.a. on opening NBV)**

**Assumptions / facts**

- Rate = 10% p.a. applied to opening NBV of each year / period; pro-rating for partial periods (months).

## Depreciation schedule (reducing-balance)

Calculate step by step:

1. **2022** (01-Jul to 31-Dec = 6 months)

- Annual @10% on opening cost 900,000 = 90,000

→ pro rata 6/12 = **45,000.00**

- Accum Dep at 31-Dec-2022 = **45,000.00**

- NBV 31-Dec-2022 = 900,000 – 45,000 =

**855,000.00**

## 2. **2023** (full year)

- Depn =  $10\% \times \text{Opening NBV (855,000)}$  =

**85,500.00**

- Accum Dep =  $45,000 + 85,500$  = **130,500.00**

- NBV 31-Dec-2023 =  $900,000 - 130,500$  =

**769,500.00**

## 3. **2024** (full year)

- Depn =  $10\% \times \text{Opening NBV (769,500)}$  =

**76,950.00**

- $\text{Accum Dep} = 130,500 + 76,950 = \mathbf{207,450.00}$

- $\text{NBV 31-Dec-2024} = \mathbf{692,550.00}$

4. **2025** (01-Jan to 31-Oct = 10 months — until date of sale)

- Annual depn on opening NBV (Jan 1, 2025 = 692,550) = 69,255.00 → pro rata for 10 months =  
 $69,255 \times (10/12) = \mathbf{57,712.50}$

- $\text{Accum Dep at sale} = 207,450 + 57,712.50 = \mathbf{265,162.50}$

- NBV at sale (31-Oct-2025) = 900,000 – 265,162.50 = **634,837.50**

## 5. Sale on 31-Oct-2025

- Proceeds = 340,000.00
- **Loss on sale** = NBV – Proceeds = 634,837.50 – 340,000.00 = **294,837.50**

## New machine (purchased 31-Oct-2025)

- Cost 200,000; reducing-balance depn for Nov–Dec 2025 = annual 10% on opening NBV (200,000) = 20,000 → 2 months =  $20,000 \times (2/12) =$  **3,333.33**

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**Journal entries (Reducing-balance method)**

**1. 01-Jul-2022 — Purchase old machine**

Machinery A/c Dr. 900,000

To Cash/Bank (or Creditor)      900,000

**2. Depreciation entries**

31-Dec-2022

Depreciation Expense A/c Dr. 45,000.00

To Accumulated Depreciation — Machinery    45,000.00

31-Dec-2023

Depreciation Expense A/c Dr. 85,500.00

To Accumulated Depreciation — Machinery 85,500.00

31-Dec-2024

Depreciation Expense A/c Dr. 76,950.00

To Accumulated Depreciation — Machinery 76,950.00

31-Oct-2025 (to date of sale)

Depreciation Expense A/c Dr. 57,712.50

To Accumulated Depreciation — Machinery 57,712.50



### **3. 31-Oct-2025 — Disposal**

Cash/Bank A/c Dr. 340,000.00

Accumulated Depreciation — Machinery Dr. 265,162.50

Loss on Sale of Machinery A/c Dr. 294,837.50

To Machinery A/c 900,000.00

### **4. 31-Oct-2025 — Purchase new machine**

Machinery (New) A/c Dr. 200,000.00

To Cash/Bank (or Creditor) 200,000.00

**5. 31-Dec-2025 — Depreciation on new machine (2 months)**

Depreciation Expense A/c Dr. 3,333.33

To Accumulated Depreciation — Machinery (New)

3,333.33

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**Ledger presentation — Reducing Balance**

**Machinery (Old) A/c (Cost)**

**Dr.**

**Rs.**

**Cr.**

**Rs.**

01-Jul-2022	900,0	31-Oct-2025 To Disposal	900,0
Purchase	00.00	(cost written off)	00.00
<b>Total</b>	900,0	<b>Total</b>	900,0
	00.00		00.00

### Accumulated Depreciation — Old Machine

Dr.	Rs.	Cr.	Rs.
31-Oct-2025 To	265,1	31-Dec-20	45,00
Disposal (written off)	62.50	22 Depn	0.00
		31-Dec-20	85,50
		23 Depn	0.00

31-Dec-20 76,95

24 Depn 0.00

31-Oct-202 57,71

5 Depn 2.50

<b>Total</b>	265,1	<b>Total</b>	265,1
	62.50		62.50

## Loss on Sale of Machinery

**Dr.**

**Rs.**

**C R**

**r. s.**

31-Oct-2025 Loss on sale	294,8
(balancing figure)	37.50

### **Machinery (New) A/c**

Dr.	Rs.	C	R
		r.	s.
31-Oct-2025	200,0		
Purchase	00.00		
<b>Balance c/d</b>	200,0		
	00.00		

### **Accumulated Depreciation — New (to 31-Dec-2025)**

Dr.	R	Cr.	Rs.
	S.		
		31-Dec-20	3,33
		25 Depn	3.33
<b>Total</b>	<b>3,333.33</b>		
<b>Cr</b>			

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**C. Summary comparison (S-L vs Reducing Balance) —  
key figures at disposal (31-Oct-2025)**

Item	Straight -Line	Reducing- Balance
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Accumulated depreciation at	300,000	265,162.50
date of sale	.00	

NBV at date of sale	600,000	634,837.50
	.00	

Sale proceeds	340,000	340,000.00
	.00	

<b>Loss on sale</b>	<b>260,000</b>	<b>294,837.50</b>
	<b>.00</b>	

New machinery — 2 months	3,333.3	3,333.33
depn (Nov–Dec-2025)	3	

**Comment:** Under S-L the NBV at disposal is lower (600,000) than under the reducing-balance method (634,837.50) because S-L charges equal amounts each year while reducing balance charges smaller amounts in later years (here S-L produced a smaller NBV at sale than reducing balance — note that in many cases reducing balance yields lower NBV over time if rate high; result depends on timing). Consequently the loss on sale differs.

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#### **D. Presentation notes & how to show in final accounts**

##### **1. Income Statement / Profit & Loss (for year 2025)**

should include:

- Depreciation charged up to date of sale for old machine (75,000 S-L or 57,712.50 RB) and



depreciation on new machine for Nov–Dec  
(3,333.33) **as expense.**

- Loss on sale recognized in P&L (260,000 S-L or 294,837.50 RB).

## **2. Balance Sheet (as at 31-Dec-2025) will show:**

- New Machinery at cost 200,000 less  
accumulated depreciation 3,333.33 → **NBV**  
**196,666.67.**
- Old machinery removed (cost and accumulated  
depreciation written off) — disposal entries clear  
it from books.

- Effect of loss on sale reduces capital/retained earnings.

3. **Rounding:** I used 2-decimal rounding for fractional rupees (e.g. 3,333.33). If your examiner expects rupee rounding to nearest rupee, you may present  $3,333.33 \rightarrow 3,333$ .

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

Pakistani culture strongly shapes the business landscape; several cultural traits make the partnership form especially popular:

**1. Strong family & kinship ties** — Joint-family systems and close kin networks encourage family members to pool resources and start businesses together. Partnerships allow easy entry/exit of relatives, informal capital contributions, and trust-based governance without heavy legal formalities.

**2. Trust-based (relational) economy** — In many communities long-term personal relationships count more than formal contracts. Partnerships rely on personal trust and reputation (ghairat/honour, ijtema'i bharosa), so

people prefer doing business with known partners rather than distant shareholders.

**3. Low access to formal finance** — Small entrepreneurs face barriers to bank credit (collateral, paperwork). Pooling savings in a partnership is a practical way to raise seed capital and share financial burden and risk.

**4. Informality and ease of formation** — Registering a company is costlier and more regulated. Partnerships can be formed quickly by agreement (often oral or simple written pact), suiting small traders, shops, professional firms (lawyers, doctors, accountants).

**5. Cultural acceptance of shared responsibility & risk sharing** — Islamic and local cultural norms endorse mutual help, collective responsibility and sharing of profit/losses, which aligns well with partnership principles.

## **6. Occupational specialization within families —**

Different family members contribute specialized skills (sales, procurement, bookkeeping); partnership permits clear role allocation while keeping business ownership within the family.

**7. Inheritance & succession customs —** Partnerships make it simpler to transfer control informally within family lines compared with corporate share transfers; older generation can hand over operations to younger relatives without major structural change.

## **8. Social capital & networks for market access —**

Business in Pakistan heavily depends on local networks, suppliers and customers known through family/tribe; partnerships preserve and extend these networks.

**9. Religious / ethical considerations** — For some, the partnership model is seen as more 'ethical' or straightforward (profit-sharing, transparency among partners) compared with outside investment that may entail activities at odds with cultural/religious values.

**10. Professional partnerships tradition** — Certain professions (law, medicine, accounting, architecture) globally favour partnerships; Pakistan follows this pattern where professional trust and personal liability are preferred.

**Consequences — why popular but not always ideal**

- **Advantages:** low start-up cost, flexibility, quick decision-making, pooled capital & skills, trust reduces transaction costs.

- **Disadvantages:** unlimited or joint liability (personal risk), potential for family disputes, difficulty raising large external capital, weaker corporate governance and succession problems, informal agreements can cause legal disputes later.

**Conclusion:** Cultural preferences—family orientation, trust networks, informal finance practices, and ease of forming relationships—make partnerships a natural fit in Pakistan. However, as businesses scale or require external investment, many convert to limited companies to gain limited liability and formal governance.

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**Q.5 (b) Calculation of goodwill using Average Profit method and 4-year purchase of the average profits**

**Given profits for last five years (Rs):**

Year 1 = 190,000

Year 2 = 192,000

Year 3 = 181,000

Year 4 = 175,000

Year 5 = 170,000

**Step 1 — Total profit for 5 years**

Total = 190,000 + 192,000 + 181,000 + 175,000 +  
170,000 = **908,000**

**Step 2 — Average annual profit**

Average = Total ÷ 5 = 908,000 ÷ 5 = **181,600**



### **Step 3 — Goodwill (4 years' purchase of average profits)**

$$\text{Goodwill} = \text{Average profit} \times \text{Number of years' purchase} = \\ 181,600 \times 4 = \mathbf{726,400}$$

**Answer:**

- **Average profit = Rs. 181,600 per year.**
- **Goodwill (4-year purchase) = Rs. 726,400.**