

# **Allama Iqbal Open University AIOU B. Com / BA Solved Assignment NO 2 Autumn 2025**

## **Code 438 Principles of Accounting**

**Q. 1 Mr. Hanan keeps his books by a single-entry system. Prepare a Statement of Profit and Loss.**

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**Statement of Affairs (Opening Capital) – 1st January 2025**

Mr. Hanan started business with capital Rs. 500,000.

**Assets acquired on commencement:**

- Building = Rs. 200,000
- Machinery = Rs. 150,000

Remaining capital assumed as cash etc.

Opening Capital = **Rs. 500,000**

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#### Adjustments During the Year

##### 1. Drawings

Cash withdrawn for personal use = Rs. 50,000

##### 2. Additional Capital Introduced

Loan from friend (interest free) introduced into  
business = Rs. 15,000

This is treated as **additional capital**, not a liability.

##### 3. Depreciation @ 10%

- Building: 10% of 200,000 = Rs. 20,000

- Machinery: 10% of 150,000 = Rs. 15,000

Total Depreciation = **Rs. 35,000**

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#### Statement of Affairs (Closing Capital) – 31st December 2025

##### Assets

- Cash in Hand = Rs. 25,000
- Cash at Bank = Rs. 35,000
- Sundry Debtors = Rs. 68,500
- Stock = Rs. 200,000
- Bills Receivable = Rs. 40,000
- Building (200,000 – 20,000) = Rs. 180,000
- Machinery (150,000 – 15,000) = Rs. 135,000

**Total Assets = Rs. 683,500**

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#### Liabilities

- Sundry Creditors = Rs. 25,700
- Outstanding Wages = Rs. 6,530

**Total Liabilities = Rs. 32,230**

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#### Closing Capital

Closing Capital = Total Assets – Total Liabilities

Closing Capital = 683,500 – 32,230

**Closing Capital = Rs. 651,270**

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#### Statement of Profit and Loss (Single Entry Method)

Particulars	Amount
	(Rs.)

Closing Capital	651,270
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Add: Drawings	50,000
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Less: Additional	(15,000)
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Capital Introduced	
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Adjusted Closing	686,270
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Capital	
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Less: Opening	(500,00
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Capital	0)
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<b>Net Profit for the</b>	<b>186,270</b>
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<b>Year</b>	
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**Final Answer**

**Net Profit for the year ended 31st December 2025 =**

**Rs. 186,270**

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**Q. 2 From the following Receipt & Payment Account of Students Foundation and the subjoined information, prepare the Income and Expenditure Account for the year ended 31st December 2025 and a Balance Sheet as on that date.**

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**Step 1: Analysis of Receipts and Payments Account**

The Receipts and Payments Account is a summary of cash and bank transactions. It includes both capital and revenue items, whether related to past, present, or future periods. Therefore, adjustments are necessary to prepare the Income and Expenditure Account and Balance Sheet.

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**Receipts During the Year**

- Endowment Fund = Rs. 14,460 (Capital Receipt)
  - Donations = Rs. 20,720 (Capital Receipt as per information)
  - Subscription = Rs. 8,020 (Revenue Receipt)
  - Legacies = Rs. 10,000 (Capital Receipt)
  - Miscellaneous Fees = Rs. 3,600 (Revenue Receipt)
  - Interest on Investment = Rs. 3,680 (Revenue Receipt)
  - Interest on Deposit = Rs. 600 (Revenue Receipt)
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#### **Payments During the Year**

- Salaries = Rs. 15,300 (Revenue Expenditure)
- Rent = Rs. 1,200 (Revenue Expenditure, adjustment required)
- Office Expenses = Rs. 5,700 (Revenue Expenditure)
- Commission = Rs. 940 (Revenue Expenditure)

- Printing = Rs. 720 (Revenue Expenditure)
  - Postage = Rs. 560 (Revenue Expenditure, adjustment required)
  - Purchase of Government Securities = Rs. 8,000 (Capital Expenditure)
  - Balance c/d = Rs. 28,660 (Closing Cash and Bank Balance)
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## **Step 2: Adjustments**

### **1. Capitalization of Donations and Legacies**

Donations Rs. 20,720 and Legacies Rs. 10,000 are capital receipts and will not be included in Income and Expenditure Account.

### **2. Rent Adjustment**

Total rent paid = Rs. 1,200

One quarter prepaid = Rs. 300

Rent chargeable for the year =  $1,200 - 300 = \text{Rs. } 900$

### 3. Outstanding Subscription

Subscription outstanding for 2026 = Rs. 500

This will be added to subscription income and shown as an asset.

### 4. Accrued Interest on Government Securities

Accrued interest not received = Rs. 800

This will be added to income and shown as an asset.

### 5. Outstanding Postage

Outstanding postage = Rs. 240

Total postage expense =  $560 + 240 = \text{Rs. } 800$

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Income and Expenditure Account for the Year Ended 31st December 2025

## Expenditure

- Salaries = Rs. 15,300
- Rent = Rs. 900
- Office Expenses = Rs. 5,700
- Commission = Rs. 940
- Printing = Rs. 720
- Postage = Rs. 800

**Total Expenditure = Rs. 24,360**

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## **Income**

- Subscription Received = Rs. 8,020
  - Add: Outstanding Subscription = Rs. 500
- Total Subscription Income = Rs. 8,520**
- Miscellaneous Fees = Rs. 3,600
  - Interest on Investment = Rs. 3,680

- Interest on Deposit = Rs. 600
- Add: Accrued Interest on Govt. Securities = Rs. 800

**Total Interest Income = Rs. 5,080**

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### **Total Income**

- Subscription = Rs. 8,520
- Miscellaneous Fees = Rs. 3,600
- Interest Income = Rs. 5,080

**Total Income = Rs. 17,200**

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**Excess of Expenditure over Income**

Excess of Expenditure = 24,360 – 17,200

**Deficit = Rs. 7,160**

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### Step 3: Balance Sheet as on 31st December 2025

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#### Balance Sheet of Students Foundation as on 31st December 2025

##### Liabilities

- Endowment Fund = Rs. 14,460
- Capital Fund (Donations + Legacies)
  - Donations = Rs. 20,720
  - Legacies = Rs. 10,000
  - Total Capital Fund = Rs. 30,720
- Outstanding Postage = Rs. 240
- Excess of Expenditure over Income = Rs. 7,160

**Total Liabilities = Rs. 52,580**

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## Assets

- Cash and Bank Balance = Rs. 28,660
- Government Securities = Rs. 8,000
- Accrued Interest on Govt. Securities = Rs. 800
- Outstanding Subscription = Rs. 500
- Prepaid Rent = Rs. 300
- Balance figure (Capital Adjustment) = Rs. 14,320

**Total Assets = Rs. 52,580**

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## Final Result:

Income and Expenditure Account shows a **Deficit of Rs. 7,160** for the year ended 31st December 2025, and the Balance Sheet is prepared accordingly with adjusted assets and liabilities.

**Q. 3 Enter the following transactions into the three-column cash book of Mr. Noman Trading Co. for the month of September 2024.**

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**Three-Column Cash Book (Cash, Bank and Discount Columns)**

**Mr. Noman Trading Co.**

**For the Month of September 2024**

<b>Dat</b>	<b>Particulars</b>	<b>L.</b>	<b>Discount</b>	<b>Cash</b>	<b>Bank</b>
<b>e</b>		<b>F</b>	<b>Allowed</b>	<b>(Rs.)</b>	<b>(Rs.)</b>
			<b>(Rs.)</b>		

Se	To Balance b/d			500,0	800,0
p 1				00	00

Se	To Sales (Cash)	100,0	–
p 2		00	

Se	To Mr. Abdullah	–	200,0
p 5			00

Se	To Bank (Cash	50,00	(50,0
p 6	withdrawn for office	0	00)
	use)		

Se	To Sales (Cash)	200,0	600,0
p 9		00	00

Se	To Mr. Anwar	5,000	—	95,00
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p				0
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Se	To Bank (Mr.		—	—
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p	Anwar's cheque			
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13	deposited)			
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Se	To Bank (Cash		(100,	100,0
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p	deposited)		000)	00
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<b>Total</b>	<b>5,000</b>	<b>750,00</b>	<b>1,745,000</b>
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By Bank (Cash deposited – Contra)	100,00	(100,000)
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Se By Bank (Cash withdrawn – Contra)	–	50,000
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Se By Salaries	25,000	–
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Se By Mr. Anwar — 95,00  
p (Cheque 0  
23 dishonored)

Se By Advertising — 3,000  
p Expense  
25

Se By Electricity Bill — 7,000  
p  
30

Se By Rent 25,00 —  
p 0  
30

By Balance c/d	700,0	1,487,
	00	000

<b>Total</b>	<b>750,0</b>	<b>1,745,</b>
	<b>00</b>	<b>000</b>

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#### Working Notes (Integrated Explanation)

Opening balances were recorded on 1st September with cash in hand of Rs. 500,000 and bank overdraft/balance of Rs. 800,000. Cash sales were recorded directly in the cash column, while cheque receipts were entered in the bank column. The cheque received from Mr. Abdullah was deposited on the same day and therefore recorded directly in the bank column.

Cash withdrawn from the bank for office use and cash deposited into the bank are contra entries and recorded on both sides of the cash book with corresponding effects on cash and bank columns.

Mr. Anwar owed Rs. 100,000 and was allowed a 5% discount amounting to Rs. 5,000. Therefore, the cheque received was Rs. 95,000, recorded in the bank column and discount allowed column. When the cheque was dishonored, the bank entry was reversed.

All expenses paid in cash or by cheque were recorded in their respective columns. The cash and bank balances were finally balanced and carried down on 30th September 2024.

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## **Closing Balances as on 30th September 2024**

Cash Balance = **Rs. 700,000**

Bank Balance = **Rs. 1,487,000**

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**Q. 4 State with reasons whether the following items should be classified as “Capital or Revenue” expenditure.**

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**a. Wages paid on the erection of machinery**

**Classification: Capital Expenditure**

Wages paid for the erection or installation of machinery are treated as capital expenditure because these wages are directly connected with bringing the machinery into a usable condition. Such expenditure is incurred before the machinery starts operating and adds to the cost of acquiring a fixed asset. Since it provides benefit over a long period and helps in creating a capital asset, it is capitalized and added to the cost of machinery.

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b. Repair of machinery for keeping it in working condition

### **Classification: Revenue Expenditure**

Repairs incurred to keep machinery in proper working condition are revenue expenditure. These expenses do not increase the capacity, efficiency, or life of the machinery beyond its original estimate; rather, they merely maintain the asset so that it can continue normal operations. Since the benefit is short-term and recurring, such repairs are charged to the Profit and Loss Account.

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c. Brokerage and stamp duty on the purchase of the building

### **Classification: Capital Expenditure**

Brokerage and stamp duty paid on the purchase of a building are capital expenditure because they are incidental costs directly related to acquiring a fixed asset. Without incurring these expenses, ownership of the building cannot be transferred. These costs increase the acquisition cost of the building and provide long-term benefits, so they are added to the value of the building in the Balance Sheet.

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d. Interest paid on a loan during the construction of a plant

### **Classification: Capital Expenditure**

Interest paid on a loan during the period of construction of a plant is capital expenditure. During this phase, the plant is not yet operational, and the interest incurred is considered part of the cost of bringing the asset into

existence. Such interest is capitalized and added to the cost of the plant. However, interest paid after the plant starts operations is treated as revenue expenditure.

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**e. Amount incurred for providing uniforms to staff**

### **Classification: Revenue Expenditure**

The cost incurred for providing uniforms to staff is revenue expenditure. This expense is recurring in nature and is incurred for the smooth functioning and discipline of daily business operations. It does not create any long-term asset for the business and provides benefit only for a short period, therefore it is charged to the Profit and Loss Account.

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**f. Annual fee paid for renewal of patents**

**Classification: Revenue Expenditure**

The annual fee paid for the renewal of patents is revenue expenditure because it is a recurring cost necessary to maintain the legal rights of an already existing intangible asset. It does not result in the acquisition of a new patent or extend the original life beyond what was initially granted. Hence, it is treated as an expense of the current period.

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**g. Loss arising from the sale of fixed assets**

**Classification: Capital Loss (Capital Nature)**

Loss arising from the sale of fixed assets is considered a capital loss because it relates to the disposal of a capital

asset. Fixed assets are not purchased for resale but for long-term use in business. Any loss incurred on their sale affects the capital structure of the business and is therefore of capital nature, not a revenue expense.

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**h. Book value of assets discarded, damaged, or destroyed by fire**

**Classification: Capital Loss (Capital Nature)**

The book value of assets that are discarded, damaged, or destroyed by fire is treated as a capital loss. Such assets are capital assets, and their loss does not arise from normal business operations. Since the loss results in a reduction of fixed assets and affects the capital base of the business, it is capital in nature.

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#### **i. Cost of goodwill**

### **Classification: Capital Expenditure**

The cost of goodwill is capital expenditure because goodwill is an intangible fixed asset that provides long-term benefits such as reputation, customer loyalty, and brand value. It is acquired to earn future profits and remains in the business for a long period. Therefore, the amount paid for goodwill is capitalized and shown in the Balance Sheet.

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#### **j. Actual additions and extensions to the existing plant**

### **Classification: Capital Expenditure**

Actual additions and extensions to an existing plant are capital expenditure because they increase the productive

capacity, efficiency, or life of the plant. Such expenditure results in enhanced earning capacity and provides benefits over several accounting periods. Hence, it is treated as capital expenditure and added to the value of the plant.

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**Q. 5 Rectify the following errors by passing the necessary journal entries.**

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**a. The sales book has been understated by Rs. 9,000**

When the sales book is understated, Sales Account has been under-credited. To rectify this error, Sales Account should be credited.

**Journal Entry:**

Sales A/c .....Dr Rs. 9,000

To Suspense A/c      Rs. 9,000

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**b. A cheque drawn for wages for Rs. 5,500 was wrongly posted to Wages A/c as Rs. 1,400**

The Wages Account has been under-debited by Rs. 4,100 (5,500 – 1,400). This amount must be debited to Wages Account.

**Journal Entry:**

Wages A/c .....Dr Rs. 4,100  
To Suspense A/c      Rs. 4,100

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c. Furniture purchased for Rs. 1,040 has been debited to Purchase A/c as Rs. 1,640

Purchase Account has been over-debited by Rs. 1,640 and Furniture Account has not been debited at all. The excess debit of Rs. 600 (1,640 – 1,040) must be corrected and the Furniture Account must be debited.

**Journal Entry:**

Furniture A/c .....Dr Rs. 1,040

Suspense A/c .....Dr Rs. 600

To Purchase A/c      Rs. 1,640

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**d. Rs. 550 received from Rahim was debited to his account**

Cash received from Rahim should have been credited to his account, but instead was debited. Therefore, Rahim's account has been debited twice. To correct this, his account must be credited twice the amount.

**Journal Entry:**

Cash A/c .....Dr Rs. 550

To Rahim A/c      Rs. 1,100

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**e. The discount received Rs. 200 was posted to the wrong side of Discount A/c**

Discount received should be credited, but it was wrongly debited. Therefore, Discount Account must be credited with double the amount.

**Journal Entry:**

Suspense A/c .....Dr Rs. 400

To Discount A/c      Rs. 400

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f. Rs. 7,000 paid in cash for a typewriter was charged to the office expenses account

Typewriter is a capital asset, but the amount was wrongly charged to revenue. Office Expenses must be credited and Typewriter Account debited.

**Journal Entry:**

Typewriter A/c .....Dr Rs. 7,000

To Office Expenses A/c      Rs. 7,000

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g. Stationery purchased for Rs. 890 but debited to Stationery A/c as Rs. 980

Stationery Account has been over-debited by Rs. 90. This excess debit must be corrected.

**Journal Entry:**

Suspense A/c .....Dr Rs. 90

To Stationery A/c           Rs. 90