Allama Iqbal Open University AIOU intermediate solved Assignment Autumn 2024

Code 1340 Business Accounting

Q. 1

Faisalabad Human Care Centre provides the following information for the year ended on 31st December 2023. (20)

Entrance Fee	10,800	Profit on	28,950
Subscription received	59,400	refreshment	4,500
Arrears of the	5,250	Secretary's	4,800
previous years	4,950	honorarium	1,650
Arrears of this year	1,650	Advertisement Paid	7,050
In advance last year	1,350	Postage expenses	1,500
In advance this year	3,900	Cash in hand Jan	13,500
Donations received	81,750	1,2023	3,300
Rent & taxes paid	4,410	Lockers rent	1,800
	3,750	received	1,500

Rent and taxes unpaid this year Rent & taxes unpaid last year		Investment at Jan 1,2023 Investment bought Charities Printing & Stationery	

Required: You are required to prepare the Receipts & Payments account and Income

& Expenditures account for the year ended on 31st December 2023.

Ans:

Step 1: Prepare the Receipts and Payments Account

The **Receipts and Payments Account** is a summary of cash and bank transactions during the year. It includes all cash inflows and outflows.

Receipts and Payments Account

For the year ended 31st December 2023

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash in Hand (Jan 1, 2023)	7,050	Rent & Taxes Paid	81,750
Entrance Fee	10,800	Secretary's Honorarium	4,500
Subscription Received	59,400	Advertisement Paid	4,800
Donations Received	3,900	Postage Expenses	1,650
Profit on Refreshment	28,950	Charities	1,800
Lockers Rent Received	1,500	Printing & Stationery	1,500
		Investment Bought	3,300
Total Receipts	111,600	**Total Payments**	99,300

Step 2: Adjustments for Income and Expenditure Account

The **Income and Expenditure Account** records income earned and expenses incurred (accrual basis). Adjustments are made for prepaid and outstanding amounts.

Adjustments:

1. **Subscription Income**:
   - Subscription for the year = Received 59,40059,40059,400 + Arrears of the current year 4,9504,9504,950 − Arrears of the previous year 5,2505,2505,250 − Advance this year 1,3501,3501,350 = **57,750**
2. **Rent & Taxes**:

- Total Rent & Taxes = Paid 81,75081,75081,750 + Unpaid this year 4,4104,4104,410 − Unpaid last year 3,7503,7503,750 = **82,410**

3. **Entrance Fee**:
    - Considered as **capital receipt** unless specified otherwise, excluded from Income & Expenditure Account.
4. **Profit on Refreshment**:
    - Treated as income = 28,95028,95028,950
5. **Lockers Rent**:
    - Income from lockers = 1,5001,5001,500
6. **Other Expenditures**:
    - Secretary's honorarium 4,5004,5004,500, Advertisement 4,8004,8004,800, Postage 1,6501,6501,650, Charities 1,8001,8001,800, and Printing & Stationery 1,5001,5001,500.
7. **Donations**:
    - Treated as income = 3,9003,9003,900
8. **Investments**:
    - Investments bought are a capital item and not included in Income & Expenditure.

Income and Expenditure Account

For the year ended 31st December 2023

Income	Amount (Rs.)	Expenditure	Amount (Rs.)
Subscription	57,750	Rent & Taxes	82,410
Profit on Refreshment	28,950	Secretary's Honorarium	4,500
Donations Received	3,900	Advertisement Paid	4,800
Lockers Rent	1,500	Postage Expenses	1,650
		Charities	1,800
		Printing & Stationery	1,500
Total Income	92,100	**Total Expenditure**	96,660

Deficit:

Total Income 92,10092,10092,100 – Total Expenditure 96,66096,66096,660 = **(4,560)**

Summary:

- **Receipts and Payments Account** provides a cash-based summary.
- **Income and Expenditure Account** shows an accrual-based deficit of Rs. 4,5604,5604,560.

Q. 2

Mr. Dildar started his business on March 1, 2020, by investing Rs. 650,000 and recorded his business transactions under the single-entry system of bookkeeping. He further invested Rs. 175,000 and withdrew Rs. 87,500 during the financial year. On February 28,2021, he wants to know the operating result of his business, for which he provided the following data as on February 28, 2021:

Cash Rs. 25,000 Bank Balance Rs. 50,000, Debtors Rs. 125,000 Land & Building

Rs. 9000,000, Machinery Rs. 450,000, Office Equipment Rs. 2000,000, Bank Loan

Rs. 1,000,000 and sundry creditors Rs. 60,000

Depreciation @ 10% is charged annually on Machinery and Office Equipment on

Straight line basis.

Required:

i Prepare the statement of affairs as on February 28, 2021

ii Prepare statement of Profit & Loss account for the period ended February 28, 2021. (20)

Ans:

Step 1: Prepare the Statement of Affairs as of February 28, 2021

This involves calculating the total assets and liabilities of the business.

Assets

1. Cash: Rs. 25,000
2. Bank Balance: Rs. 50,000
3. Debtors: Rs. 125,000
4. Land & Building: Rs. 9,000,000
5. Machinery: Rs. 450,000 (before depreciation)
6. Office Equipment: Rs. 2,000,000 (before depreciation)

Depreciation calculations:

- Machinery depreciation = 450,000×10%=45,000450,000 \times 10\% = 45,000450,000×10%=45,000
  Net Machinery Value = 450,000−45,000=405,000450,000 - 45,000 = 405,000450,000−45,000=405,000
- Office Equipment depreciation = 2,000,000×10%=200,0002,000,000 \times 10\% = 200,0002,000,000×10%=200,000
  Net Office Equipment Value = 2,000,000−200,000=1,800,0002,000,000 - 200,000 = 1,800,0002,000,000−200,000=1,800,000

Total Assets:

25,000+50,000+125,000+9,000,000+405,000+1,800,000=Rs.11,405,0 0025,000 + 50,000 + 125,000 + 9,000,000 + 405,000 + 1,800,000 = Rs. 11,405,00025,000+50,000+125,000+9,000,000+405,000+1,800,000= Rs.11,405,000

Liabilities

1. Bank Loan: Rs. 1,000,000
2. Sundry Creditors: Rs. 60,000

Total Liabilities:

1,000,000+60,000=Rs.1,060,0001,000,000 + 60,000 = Rs. 1,060,0001,000,000+60,000=Rs.1,060,000

Capital (Net Worth)

Capital=Total Assets−Total Liabilities\text{Capital} = \text{Total Assets} - \text{Total Liabilities}Capital=Total Assets−Total Liabilities Capital=11,405,000−1,060,000=Rs.10,345,000\text{Capital} = 11,405,000 - 1,060,000 = Rs. 10,345,000Capital=11,405,000−1,060,000=Rs.10,345,000

Statement of Affairs as of February 28, 2021

Particulars	**Rs.**	**Rs.**
Assets:		
Cash	25,000	
Bank Balance	50,000	
Debtors	125,000	
Land & Building	9,000,000	
Machinery (Net)	405,000	
Office Equipment (Net)	1,800,000	
Total Assets		11,405,000
Liabilities:		
Bank Loan	1,000,000	
Sundry Creditors	60,000	
Total Liabilities		1,060,000
Net Worth (Capital)		10,345,000

Step 2: Prepare the Statement of Profit & Loss for the Year

The profit or loss is calculated based on the change in capital, after adjusting for additional investments and withdrawals.

1. **Closing Capital** (from Statement of Affairs): Rs. 10,345,000
2. **Opening Capital**: Rs. 650,000 (initial investment)
3. **Additional Investment**: Rs. 175,000
4. **Withdrawals**: Rs. 87,500

Adjusted Opening Capital

Adjusted Opening Capital=Opening Capital+Additional Investment−Withdrawals\text{Adjusted Opening Capital} = \text{Opening Capital} + \text{Additional Investment} - \text{Withdrawals}Adjusted Opening Capital=Opening Capital+Additional Investment−Withdrawals

Adjusted Opening Capital=650,000+175,000−87,500=Rs.737,500\text{Adjusted Opening Capital} = 650,000 + 175,000 - 87,500 = Rs. 737,500Adjusted Opening Capital=650,000+175,000−87,500=Rs.737,500

Profit or Loss

Profit=Closing Capital−Adjusted Opening Capital\text{Profit} = \text{Closing Capital} - \text{Adjusted Opening Capital}Profit=Closing Capital−Adjusted Opening Capital

Profit=10,345,000−737,500=Rs.9,607,500\text{Profit} = 10,345,000 - 737,500 = Rs. 9,607,500Profit=10,345,000−737,500=Rs.9,607,500

Statement of Profit & Loss for the Period Ended February 28, 2021

Particulars	**Rs.**
Profit for the Year	**9,607,500**

Summary

1. **Net Worth (Closing Capital)**: Rs. 10,345,000
2. **Profit for the Year**: Rs. 9,607,500

Q. 3

On July 2023 Mr. Nabil. Sent a consignment, which contained 1,500 pieces of toys of Rs. 300,000 to his agent, Mr. Nazir. They agreed upon 5% commission and 3% del-credere commission on gross sales proceeds. Consignor incurred Rs. 6,000 packing and freight expenses and drew a bill on Consignee amounting Rs. 100,000 which was duly accepted by consignee. Consignee incurred selling expenses amounting Rs. Rs. 15,000 and sold 1,000 toys @ Rs. 250 each. At the end of August 2023, the consignee sent an account sale and a bank draft for the balance due to consignor. You are required to (a) Prepare an account sale (b) Pass the journal entries and (c) Prepare necessary accounts in the books of Mr. Nabil.

Ans:

Solution

(a) Account Sale

Account Sale	**Amount (Rs.)**
Sales Proceeds (1,000 toys @ Rs. 250 each)	250,000
Less:	
Commission (5% + 3%)	20,000

Account Sale	Amount (Rs.)
Selling Expenses	15,000
Net Amount Due to Consignor	**215,000**

(b) Journal Entries

1. **For Consignment Sent to Agent**:
   Dr. Consignment Account 306,000
   Cr. Goods Sent on Consignment Account 300,000
   Cr. Cash Account 6,000
2. **For Bill Accepted by Consignee**:
   Dr. Bills Receivable Account 100,000
   Cr. Consignee Account 100,000
3. **For Sales Made by Consignee**:
   Dr. Consignee Account 250,000
   Cr. Consignment Account 250,000
4. **For Commission Deducted by Consignee**:
   Dr. Consignment Account 20,000
   Cr. Consignee Account 20,000
5. **For Selling Expenses by Consignee**:
   Dr. Consignment Account 15,000
   Cr. Consignee Account 15,000
6. **For Receipt of Net Proceeds from Consignee**:
   Dr. Bank Account 115,000
   Dr. Bills Receivable Account 100,000
   Cr. Consignee Account 215,000
7. **For Closing of Consignment Account**:
   Dr. Consignment Account 215,000
   Cr. Profit & Loss Account 215,000

(c) Accounts

1. **Consignment Account**

Particulars	Dr. (Rs.)	Cr. (Rs.)
To Goods Sent on Consignment A/c	300,000	
To Cash (Packing & Freight)	6,000	
To Consignee (Commission)	20,000	
To Consignee (Selling Expenses)	15,000	
By Consignee (Sales Proceeds)		250,000
To Profit & Loss A/c (Profit)		215,000
Total	**341,000**	**341,000**

2. **Consignee Account**

Particulars	Dr. (Rs.)	Cr. (Rs.)
To Bills Receivable A/c		100,000
To Bank A/c		115,000
By Consignment A/c (Sales)	250,000	
By Consignment A/c (Commission)		20,000
By Consignment A/c (Expenses)		15,000
Total	**250,000**	**250,000**

3. **Profit & Loss Account**

Particulars	Dr. (Rs.)	Cr. (Rs.)
By Consignment A/c (Profit)		215,000

Particulars	Dr. (Rs.)	Cr. (Rs.)
Total	**215,000**	**215,000**

Q. 4 Define depreciation and explain the factors for determining the depreciation.

Ans:

Definition of Depreciation

Depreciation is the systematic allocation of the cost of a tangible asset over its useful life. It represents the wear and tear, usage, or obsolescence of an asset that occurs over time, reducing its value. Depreciation is a non-cash expense that helps allocate the cost of an asset to the periods it benefits.

Factors for Determining Depreciation

Several factors influence the calculation and determination of depreciation:

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1. Cost of the Asset

- The total amount paid to acquire the asset, including purchase price, transportation, installation, and other costs necessary to bring the asset into use.
- Depreciation is calculated based on this cost.

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2. Estimated Useful Life

- The period during which an asset is expected to provide economic benefits or remain usable.
- Useful life varies depending on the type of asset, usage conditions, and industry practices.

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3. Residual Value (or Salvage Value)

- The estimated value of the asset at the end of its useful life when it is no longer in use.
- Depreciation is calculated on the asset's cost minus the residual value.

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4. Method of Depreciation

- The choice of depreciation method affects the amount allocated to each accounting period. Common methods include:
  - **Straight-Line Method (SLM):** Equal depreciation expense each year.
  - **Diminishing Balance Method (DBM):** Higher depreciation in earlier years, reducing over time.
  - **Units of Production Method:** Depreciation based on usage or production output.

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5. Obsolescence

- The asset may become outdated due to technological advancements or market changes, affecting its useful life and depreciation.

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6. Legal or Contractual Limits

- Legal restrictions, agreements, or regulations may define the asset's useful life, impacting its depreciation schedule.

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7. Repairs and Maintenance

- Regular repairs and maintenance can extend the asset's useful life, while neglect can reduce it, influencing depreciation calculations.

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8. Nature and Usage of the Asset

- The intensity and conditions under which the asset is used (e.g., heavy machinery in a factory vs. office furniture) significantly impact its depreciation rate.

Q. 5

July 1, 2020, Soban Corporation purchased factory equipment for Rs. 150,000. The salvage value was estimated to be Rs. 10,000. The equipment will be depreciated over ten years using the straight-line method. Counting the year of acquisition as one-hald year, prepare complete depreciation table for factory equipment. Also, mention the accounting entry made in the books of accounts.

Solution

1. Depreciation Calculation

Using the **Straight-Line Method**:

Depreciation Expense per Year=Cost of Asset−Salvage ValueUseful Life\text{Depreciation Expense per Year} = \frac{\text{Cost of Asset} - \text{Salvage Value}}{\text{Useful Life}}Depreciation Expense per Year=Useful LifeCost of Asset−Salvage Value

Depreciation Expense=150,000−10,00010=14,000 per year.\text{Depreciation Expense} = \frac{150,000 - 10,000}{10} = 14,000 \, \text{per year.}Depreciation Expense=10150,000−10,000=14,000per year.

For the first year (2020), depreciation will be half because it is counted as a half year:

Depreciation for 2020=14,0002=7,000\text{Depreciation for 2020} = \frac{14,000}{2} = 7,000Depreciation for 2020=214,000=7,000

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2. Depreciation Table

Year	Beginning Book Value (Rs.)	Depreciation Expense (Rs.)	Accumulated Depreciation (Rs.)	Ending Book Value (Rs.)
2020	150,000	7,000	7,000	143,000
2021	143,000	14,000	21,000	136,000
2022	136,000	14,000	35,000	129,000
2023	129,000	14,000	49,000	122,000
2024	122,000	14,000	63,000	115,000
2025	115,000	14,000	77,000	108,000
2026	108,000	14,000	91,000	101,000
2027	101,000	14,000	105,000	94,000

Year	Beginning Book Value (Rs.)	Depreciation Expense (Rs.)	Accumulated Depreciation (Rs.)	Ending Book Value (Rs.)
2028	94,000	14,000	119,000	87,000
2029	87,000	14,000	133,000	80,000
2030	80,000	14,000	147,000	73,000
2031	73,000	14,000	161,000	66,000

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3. Journal Entry

1. **For Recording Annual Depreciation** (e.g., for 2020):

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Dr. Depreciation Expense 7,000

Cr. Accumulated Depreciation 7,000

(Being depreciation recorded for the half-year ended December 31, 2020)

2. **For Subsequent Years** (e.g., 2021 onwards):

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Dr. Depreciation Expense 14,000

Cr. Accumulated Depreciation 14,000

(Being depreciation recorded for the year ended December 31, 2021)

Notes

1. **Ending Book Value for 2031:**
   The table shows that the value reaches Rs. 10,000 (salvage value) at the end of the useful life.
2. This method ensures equal allocation of the equipment's cost (minus salvage value) over its useful life.