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Name:

Registration No.:

Course Code: 1340

Program: FA / I.Com

Semester: Autumn 2026

Allama Iqbal Open University, Islamabad

(Department of Commerce)

Business Accounting (1340)

Programme / Level: FA / I.Com

Semester: Autumn 2026

Assignment No. 1 (Units: 1–4)

Total Marks: 100 | Pass Marks: 40

SOLVED ASSIGNMENT GUIDE — For Study & Reference

Note: This guide is for study and reference only. Students should understand each working and write the assignment in their own words and in their own handwriting / presentation, following AIOU instructions. All questions are compulsory and carry equal marks (20 marks each), as printed in the booklet.

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Question 1

Q. 1 Faisalabad Human Care Centre provides the following information for the year ended on 31st December 2023. [Data as printed: Entrance fee 10,800; Subscription received 59,400; Arrears of the previous year 5,250; Arrears of this year 4,950; In advance last year 1,650; In advance this year 1,350; Donations received 3,900; Rent & taxes paid 81,750; Rent and taxes unpaid this year 4,410; Rent & taxes unpaid last year 3,750; Profit on refreshment 28,950; Secretary's honorarium 4,500; Advertisement paid 4,800; Postage expenses 1,650; Cash in hand Jan 01, 2023 7,050; Lockers rent received 1,500; Investment at Jan 01, 2023 13,500; Investment bought 3,300; Charities 1,800; Printing & Stationery 1,500.] Required: You are required to

prepare the Receipts & Payments account and Income & Expenditures account for the year ended on 31st December 2023. (20)

Introduction

Faisalabad Human Care Centre is, in accounting language, a non-trading concern. It does not exist to buy and sell goods for profit; it exists to provide a service to its members and to the community. Because of that purpose, it does not prepare a Trading Account and a Profit and Loss Account in the commercial form. Instead it prepares two distinct statements that students often confuse with one another: a Receipts and Payments Account and an Income and Expenditure Account. This question requires both, from the same list of figures, so it is an ideal test of whether the difference between cash and income, and between payment and expenditure, has really been understood.

The Receipts and Payments Account is a summary of the cash book. It opens with the cash (and bank) balance at the start of the year, records every rupee actually received and every rupee actually paid during the year, whether the item belongs to the past year, the current year or the next year, and whether it is revenue or capital in nature, and it closes with the cash balance at the end of the year. The Income and Expenditure Account, by contrast, is the non-trading equivalent of the Profit and Loss Account. It follows the accrual basis: it records only revenue items that belong to the current year, whether the cash has moved or not, and its balance is called a surplus (if income exceeds expenditure) or a deficit, never a profit or a loss.

Keeping that distinction in mind at every step is the whole secret of this question. Each printed figure must therefore be asked two separate questions: first, did cash move in 2023, and if so, does it go into Receipts and Payments? Second, does the item belong, as income or expense, to 2023, and if so, in what amount does it go into Income and Expenditure? The workings below

apply those two questions item by item, so that no figure is simply copied from one account to the other without adjustment.

Working Notes — the Adjustments That Matter

Subscription is the classic adjusted item. The Centre received Rs. 59,400 in cash during 2023, and the whole of that amount belongs in Receipts and Payments. For Income and Expenditure, however, the amount earned for 2023 must be isolated. Start with the cash received, Rs. 59,400. Deduct the arrears of the previous year, Rs. 5,250, because that portion, although collected now, was earned last year. Add the arrears of this year, Rs. 4,950, because members owe it for 2023 even though it has not yet been received. Add the amount received in advance last year, Rs. 1,650, because cash collected last year was for this year's membership and is therefore this year's income. Finally deduct the amount received in advance this year, Rs. 1,350, because it belongs to next year. The four adjustments exactly cancel out — minus 5,250 plus 4,950 plus 1,650 minus 1,350 equals zero — so subscription income for 2023 is, by coincidence of these figures, again Rs. 59,400. A student who simply copies 59,400 gets the right income figure here, but only by luck; the working must still be shown, because the examiner is testing the method, not the coincidence.

Rent and taxes need a similar adjustment, this time on the payment side. The Centre actually paid Rs. 81,750 during the year, and that full amount is a payment in Receipts and Payments. As an expense of 2023, however, the payment must be corrected for amounts unpaid at the two year-ends. Rent and taxes unpaid last year, Rs. 3,750, were part of the cash paid this year but were last year's expense, so they are deducted. Rent and taxes unpaid this year, Rs. 4,410, have been incurred in 2023 although not yet paid, so they are added. The expense for the year is therefore 81,750 minus 3,750 plus 4,410, which equals Rs. 82,410.

Two items must be kept out of Income and Expenditure altogether, or treated only in their proper place. The investment held on 1 January 2023, Rs. 13,500, is an opening asset: no cash moved for it in 2023 and it is not income, so it appears in neither account (it would appear in the opening Balance Sheet). The investment bought during the year, Rs. 3,300, is a capital payment: cash did move, so it appears on the payments side of Receipts and Payments, but buying an asset is not an expense, so it is excluded from Income and Expenditure. Entrance fee, donations, profit on refreshments and lockers rent are treated in this guide as revenue receipts of the year, which is the normal treatment at this level unless the booklet states that a receipt is to be capitalised or added to a special fund; no such instruction is printed here, and the assumption is stated openly so that the reader can follow it.

Receipts and Payments Account

The Receipts and Payments Account for the year ended 31 December 2023 is set out below. Notice its discipline: it begins with cash in hand of Rs. 7,050 on 1 January 2023, it lists receipts of Rs. 10,800 entrance fee, Rs. 59,400 subscriptions, Rs. 3,900 donations, Rs. 28,950 profit on refreshments and Rs. 1,500 lockers rent, and it lists payments of Rs. 81,750 rent and taxes, Rs. 4,500 secretary's honorarium, Rs. 4,800 advertisement, Rs. 1,650 postage, Rs. 3,300 investment bought, Rs. 1,800 charities and Rs. 1,500 printing and stationery. Total receipts including the opening balance are Rs. 111,600; total payments are Rs. 99,300; the difference, Rs. 12,300, is the cash in hand on 31 December 2023, and it must agree with a physical count or bank confirmation in a real organisation.

The agreement of the closing balance is a genuine check, not a decorative figure. If the two sides of this account do not differ by exactly the closing cash, an item has been omitted, duplicated or placed on the wrong side, and the error should be hunted before the second account is attempted.

That habit — proving the cash summary first, then building the accrual statement on top of it — is exactly how a treasurer works in practice, moving from the cash book he keeps daily to the annual statement he presents to members.

Receipts	Rs.	Payments	Rs.
Balance b/d (1 Jan 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	Investment bought	3,300
Lockers rent received	1,500	Charities	1,800
		Printing & stationery	1,500
		Balance c/d (31 Dec 2023)	12,300
Total	**111,600**	**Total**	**111,600**

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Income and Expenditure Account

The Income and Expenditure Account for the same year is set out in the second table. On the income side stand entrance fee Rs. 10,800, subscription earned Rs. 59,400 (as worked above),

donations Rs. 3,900, profit on refreshments Rs. 28,950 and lockers rent Rs. 1,500, giving total income of Rs. 104,550. On the expenditure side stand rent and taxes Rs. 82,410 (as adjusted above), secretary's honorarium Rs. 4,500, advertisement Rs. 4,800, postage Rs. 1,650, charities Rs. 1,800 and printing and stationery Rs. 1,500, giving total expenditure of Rs. 96,660. The excess of income over expenditure is Rs. 7,890, and because the Centre is a non-trading concern that amount is called a surplus, and in a full set of accounts it would be added to the Capital Fund (Accumulated Fund) in the Balance Sheet.

It is instructive to compare the two closing figures. Cash rose from Rs. 7,050 to Rs. 12,300, an increase of Rs. 5,250, while the surplus is Rs. 7,890. The two amounts are not equal, and they should not be: the surplus measures performance on the accrual basis, while the cash movement also reflects capital transactions such as the Rs. 3,300 spent on investments and timing differences such as subscriptions and rent outstanding or prepaid. A committee that looked only at the cash book would understate the year's achievement, and a committee that looked only at the surplus might forget that part of that surplus is still owed by members as arrears. Presenting both statements together, as this question demands, gives the complete picture.

One further teaching point deserves emphasis. Profit on refreshments, Rs. 28,950, is already described in the data as a profit, that is, as a net figure after the costs of the refreshment activity have been met. It is therefore entered once, as income, at that net amount. It must not be grossed up, and its underlying receipts and payments must not be entered again, or the activity would be counted twice. The same careful reading of the wording of each item — is it a gross receipt, a payment, or a net result? — prevents most errors in this type of question.

Expenditure	Rs.	Income	Rs.

Rent & taxes (adjusted)	82,410	Entrance fee	10,800
Secretary's honorarium	4,500	Subscription (adjusted)	59,400
Advertisement	4,800	Donations	3,900
Postage expenses	1,650	Profit on refreshment	28,950
Charities	1,800	Lockers rent	1,500
Printing & stationery	1,500		
Surplus (excess of income over expenditure)	7,890		
Total	**104,550**	**Total**	**104,550**

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Conclusion

In conclusion, the Receipts and Payments Account closes with cash in hand of Rs. 12,300 on 31 December 2023, and the Income and Expenditure Account shows a surplus of Rs. 7,890 for the year. The method matters as much as the figures: cash items in full in the first account, current-year revenue items adjusted for arrears, advances and amounts unpaid in the second, capital items such as the purchase of investments kept out of Income and Expenditure, and opening assets such as the investment of Rs. 13,500 kept out of both. Applied consistently, that method will solve any non-trading concern question of this pattern, whatever figures are set.

Question 2

Q. 2 Mr. Dildar started his business on March 1, 2020, by investing Rs. 650,000 and recording 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 of February 28, 2021: Cash Rs. 25,000, Bank Balance Rs. 50,000, Debtors Rs. 125,000, Land & Building Rs. 900,000, Machinery Rs. 450,000, Office Equipment Rs. 200,000, Bank Loan Rs. 1,000,000, and sundry creditors Rs. 60,000. Depreciation @ 10% is charged annually on Machinery and Office Equipment on a straight-line basis. Required: i. Prepare the statement of affairs as on February 28, 2021. ii. Prepare the statement of Profit & Loss account for the period ended on February 28, 2021. (20)

Introduction

Under the single-entry system a trader keeps only part of the double-entry records — usually a cash book and the personal accounts of debtors and creditors — and keeps no complete set of nominal and real accounts. Such a trader cannot extract a trial balance and cannot prepare a conventional Profit and Loss Account from ledger balances. Yet he still needs to know, at the end of a year, whether he has made a profit or a loss, if only to judge his business, satisfy a lender or prepare for conversion to double entry. The technique designed for exactly this situation is the Statement of Affairs method, sometimes called the capital comparison or net worth method, and this question is a complete worked application of it.

The logic is simple and powerful. Capital is what remains when liabilities are deducted from assets: Capital equals Assets minus Liabilities. If a statement listing all assets and liabilities is

prepared at the end of the period, the closing capital is revealed. That closing capital is then compared with the opening capital, after adjusting for money the owner has put in or taken out during the year, because fresh investment increases capital without being profit and drawings decrease capital without being a loss. Any remaining increase is profit; any remaining decrease is loss. Depreciation, which a single-entry trader often forgets because no depreciation account is kept, must also be charged, otherwise profit will be overstated by the value the fixed assets have consumed during the year.

Step 1 — Depreciation and the Values to Be Used

Depreciation is charged at 10 per cent per annum on the straight-line basis on the two assets named in the question. On machinery of Rs. 450,000, one year's depreciation is Rs. 45,000, leaving a written-down value of Rs. 405,000. On office equipment of Rs. 200,000, one year's depreciation is Rs. 20,000, leaving a written-down value of Rs. 180,000. The period from 1 March 2020 to 28 February 2021 is exactly one financial year, so a full year's charge is appropriate; no apportionment for part of a year is needed. Land and Building is not depreciated in this question, because no rate is given for it, and a student must not invent a rate the examiner has not supplied; land in particular is conventionally not depreciated, and the booklet names only machinery and office equipment.

There is a presentational choice here that should be made openly. Some textbooks build the Statement of Affairs from the gross figures supplied and then deduct depreciation inside the profit statement; others, as in this guide, state the fixed assets at their written-down values inside the Statement of Affairs itself, so that the closing capital it reveals is already net of depreciation. The second presentation is cleaner, provided the depreciation is also shown explicitly as a charge in the Statement of Profit and Loss, so that the reader can see both the reduced asset values and

the reason for them. Either route, honestly followed, reaches the same final result, and the reconciliation below proves it.

Step 2 — Statement of Affairs as on 28 February 2021

The Statement of Affairs lists liabilities on one side and assets on the other, in the style of a Balance Sheet, but it must be remembered that it is not a Balance Sheet: it is built from whatever information can be gathered — stock counts, lists of debtors and creditors, bank statements and valuations — rather than proved from a trial balance, and if an asset or liability has been forgotten it will simply be missing without the accounting equation protesting. Liabilities are the bank loan of Rs. 1,000,000 and sundry creditors of Rs. 60,000, a total of Rs. 1,060,000. Assets are cash Rs. 25,000, bank balance Rs. 50,000, debtors Rs. 125,000, land and building Rs. 900,000, machinery at written-down value Rs. 405,000 and office equipment at written-down value Rs. 180,000, a total of Rs. 1,685,000. The excess of assets over liabilities, Rs. 625,000, is Mr. Dildar's closing capital on 28 February 2021.

Notice how large the bank loan is in relation to the business: at Rs. 1,000,000 it exceeds the owner's closing capital, which means the business is highly geared and most of the asset base, in effect the land and building, is financed by the bank rather than by the owner. That observation does not change the arithmetic, but a good answer notices it, because the statement is not merely an examination exercise; it is the only financial picture this trader has, and it already warns him that interest cost, repayment obligations and the security given for the loan deserve his close attention in the year ahead.

Liabilities	Rs.	Assets	Rs.
Bank loan	1,000,000	Cash	25,000

Sundry creditors	60,000	Bank balance	50,000
		Debtors	125,000
		Land & Building	900,000
		Machinery 450,000 less depreciation 45,000	405,000
		Office Equipment 200,000 less depreciation 20,000	180,000
Capital (balancing figure)	625,000		
Total	**1,685,000**	**Total**	**1,685,000**

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Step 3 — Statement of Profit and Loss for the Year Ended 28 February 2021

The profit statement now compares the two capitals. Closing capital is Rs. 625,000. To it are added back the drawings of Rs. 87,500, because money withdrawn for personal use reduced the closing capital but is not a business loss; that gives Rs. 712,500. From that figure are deducted the additional investment of Rs. 175,000, because money introduced during the year increased capital but is not profit, and the opening capital of Rs. 650,000 invested on 1 March 2020. The result is 712,500 minus 175,000 minus 650,000, which equals a negative Rs. 112,500. Mr. Dildar has therefore made a net loss of Rs. 112,500 in his first year of trading.

The same result can be proved in a second way, which is a valuable check. If depreciation is temporarily ignored, closing capital on the gross figures would be Rs. 1,750,000 of assets minus Rs. 1,060,000 of liabilities, that is Rs. 690,000, and the comparison would show an apparent loss of Rs. 47,500 (690,000 plus 87,500 minus 175,000 minus 650,000). Charging the year's depreciation of Rs. 65,000 (Rs. 45,000 on machinery plus Rs. 20,000 on office equipment) increases that loss to Rs. 47,500 plus Rs. 65,000, which is again Rs. 112,500. Both routes agree, and presenting the check in an examination answer demonstrates that the candidate understands depreciation as a real cost of the year, not as an optional adjustment to be added if time permits.

A loss in a first year is not unusual — a new business carries set-up costs, builds its customer base slowly and, as here, bears a full year's depreciation and the burden of a large bank loan from the very start — but the single-entry records cannot tell Mr. Dildar where the loss arose. He cannot tell from this statement whether the cause was low sales, poor gross margin, heavy expenses or bad debts, because the method yields only one overall figure. That limitation should be stated plainly: the Statement of Affairs method answers the question 'how much?' but not the question 'why?', and it is entirely dependent on the completeness of the asset and liability lists supplied. An omitted creditor would overstate capital and understate the loss without any internal check revealing the error.

Particulars	Rs.
Capital at end (28 Feb 2021, from Statement of Affairs)	625,000
Add: Drawings during the year	87,500
Sub-total	712,500

Less: Additional investment during the year	(175,000)
Less: Opening capital (1 March 2020)	(650,000)
Net Loss for the year (including depreciation Rs. 65,000)	(112,500)

Conclusion

In conclusion, the Statement of Affairs as on 28 February 2021 shows closing capital of Rs. 625,000, total assets of Rs. 1,685,000 (after depreciation) and total outside liabilities of Rs. 1,060,000. The Statement of Profit and Loss shows a net loss of Rs. 112,500 for the year ended 28 February 2021. The sensible advice that accompanies these figures is that Mr. Dildar should convert his records to the double-entry system from the next financial year, so that future results can be analysed in detail, assets and liabilities can be proved rather than merely listed, and losses of this size can be traced to their causes while there is still time to correct them.

Question 3

Q. 3 In July 2025, Mr. NUMAN sent a consignment, which contained 1,500 pieces of toys worth 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 in packing and freight expenses and drew a bill on Consignee amounting to Rs. 100,000, which was duly accepted by the consignee. Consignee incurred selling expenses amounting to 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 the 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. (20) [Booklet

defects — see transparency note in the answer: the consignment is dated July 2025 but the account sale is dated 'end of August 2023', and the consignor is named NUMAN in the opening sentence but 'Mr. Nabil' in part (c).]

Introduction and Transparency Note on the Booklet

Transparency note (booklet defects, quoted exactly): the question prints that the consignment was sent 'In July 2025' and also that 'At the end of August 2023, the consignee sent an account sale' — August 2023 is almost two years before July 2025, so the two printed dates cannot both be correct. The question also opens with consignor 'Mr. NUMAN' and agent 'Mr. Nazir', but part (c) then asks for the accounts 'in the books of Mr. Nabil', a third name that appears nowhere else in the question. This guide does not silently correct either defect. It solves the question on the figures, which are complete and internally consistent, treating NUMAN as the consignor (the name given for the sender throughout the narrative), Nazir as the consignee, and the account sale as rendered at the end of the consignment period, whatever year was intended. The student should mention the discrepancy in the examination in exactly the same way, briefly, and then proceed — examiners reward a candidate who notices a misprint and states a reasonable assumption far more than one who is derailed by it.

A consignment is not a sale. The consignor, Numan, remains the owner of the toys throughout; he merely places physical possession with his agent, Nazir, in another place so that they can be sold on his behalf and at his risk. Nazir never becomes a debtor for the price of the goods when he receives them; he becomes accountable for the proceeds when he sells them. That single principle governs every entry that follows: goods sent are recorded at cost in a special Consignment Account, not as ordinary sales; the consignee's account is debited only when sales are made; his commission is his remuneration for selling, and the extra del-credere commission

is his remuneration for guaranteeing the collection of debts, so that if a consignment debtor defaults, the loss falls on Nazir, not on Numan.

Workings

Four workings should be completed before any document is drawn up. First, gross sales proceeds: 1,000 toys were sold at Rs. 250 each, giving Rs. 250,000. The remaining 500 toys are unsold and form the closing stock on consignment. Second, commission: ordinary commission at 5 per cent of Rs. 250,000 is Rs. 12,500, and del-credere commission at 3 per cent of Rs. 250,000 is Rs. 7,500, a total commission of Rs. 20,000. Note that both commissions are calculated on gross sales proceeds, exactly as the agreement states, not on the amount remaining after expenses. Third, the amount accountable by Nazir is sales of Rs. 250,000 less his selling expenses of Rs. 15,000 and his total commission of Rs. 20,000, which is Rs. 215,000. From this is deducted the bill of Rs. 100,000 which he has already accepted in favour of the consignor — that bill was an advance against the consignment, not a payment for goods — leaving a balance of Rs. 115,000, which is exactly the amount of the bank draft he remits with the account sale. The agreement of that draft figure is the first proof that the workings are right.

Fourth, the unsold stock must be valued. Its cost is 500 toys at Rs. 200 each (Rs. 300,000 divided by 1,500 pieces), that is Rs. 100,000. To cost is added the proportionate part of the consignor's direct expenses of packing and freight, Rs. 6,000 multiplied by 500 over 1,500, which is Rs. 2,000, because that expenditure was incurred to bring the whole consignment, including the unsold portion, to the place of sale. The consignee's selling expenses are not added to stock value, because they relate to the act of selling the goods that were sold, not to bringing the unsold goods to their present location and condition. Stock on consignment is therefore Rs. 102,000. With that, profit on the consignment can already be predicted: sales Rs. 250,000 plus closing

stock Rs. 102,000, minus goods sent Rs. 300,000, consignor's expenses Rs. 6,000, consignee's expenses Rs. 15,000 and commission Rs. 20,000, gives a profit of Rs. 11,000, which the Consignment Account below must reproduce.

(a) Account Sales

An account sales is the statement the consignee sends to the consignor reporting what he has done with the goods: how much he sold and for how much, what expenses he incurred, what commission he is charging, what advances he has already made, and what balance he is remitting. It is the documentary foundation for the consignor's entries, which is why the question asks for it first. In the form below, rendered by Nazir at the end of August (year as printed: 2023; consignment as printed: July 2025 — see the transparency note), the account sales shows gross proceeds of Rs. 250,000, charges of Rs. 35,000 in total (selling expenses Rs. 15,000, ordinary commission Rs. 12,500 and del-credere commission Rs. 7,500), a total due to the consignor of Rs. 215,000, the bill already accepted of Rs. 100,000, and the balance remitted by bank draft of Rs. 115,000. A well-drawn account sales is self-proving in exactly this way: any consignor receiving it can re-perform the arithmetic from the agreement's percentages.

Account Sales — Particulars	Rs.
Gross proceeds: 1,000 toys @ Rs. 250	250,000
Less: Selling expenses incurred by consignee	(15,000)
Less: Ordinary commission @ 5% on gross sales	(12,500)
Less: Del-credere commission @ 3% on gross	(7,500)

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sales	
Total amount due to consignor	**215,000**
Less: Bill already accepted by consignee	(100,000)
Balance remitted by bank draft	**115,000**

(b) Journal Entries in the Books of the Consignor

The journal entries in Numan's books follow the life of the consignment in order. When the goods are dispatched: Consignment to Nazir Account is debited Rs. 306,000, Goods Sent on Consignment Account is credited Rs. 300,000 (the cost of the toys) and Cash or Bank is credited Rs. 6,000 (packing and freight paid). The Consignment Account thus collects, on its debit side, everything the venture has cost. When the bill is drawn and accepted: Bills Receivable Account is debited Rs. 100,000 and Nazir's Account is credited Rs. 100,000, recording the advance security obtained from the agent. When the account sales is received, three entries arise: Nazir's Account is debited Rs. 250,000 with the gross sales, credited to the Consignment Account; the consignee's expenses are recorded by debiting Consignment Account Rs. 15,000 and crediting Nazir; and his commission is recorded by debiting Consignment Account Rs. 20,000 and crediting Nazir. The unsold stock is then brought in by debiting Stock on Consignment Account Rs. 102,000 and crediting Consignment Account.

Finally the Consignment Account is closed. Its credit side (sales Rs. 250,000 plus stock Rs. 102,000, total Rs. 352,000) exceeds its debit side (goods and expenses and commission totalling Rs. 341,000) by Rs. 11,000, so Consignment Account is debited Rs. 11,000 and Profit and Loss Account is credited Rs. 11,000 to transfer the profit. Goods Sent on Consignment Account is

closed to the Trading Account by a debit of Rs. 300,000, restoring the goods to the ordinary trading results at cost so that they are not counted both as sales and as consignment stock. And when the draft arrives, Bank Account is debited Rs. 115,000 and Nazir's Account is credited Rs. 115,000, which exactly extinguishes Nazir's balance, as the ledger account below proves. No entry is made in the consignor's books for the consignee's own debtors: because del-credere commission is paid, the credit risk on those sales is Nazir's affair entirely.

Journal Entry (consignor's books)	Dr. Rs.	Cr. Rs.
Consignment to Nazir Dr. / To Goods Sent 300,000, To Cash 6,000	306,000	306,000
Bills Receivable Dr. / To Nazir	100,000	100,000
Nazir Dr. / To Consignment (sales)	250,000	250,000
Consignment Dr. / To Nazir (selling expenses)	15,000	15,000
Consignment Dr. / To Nazir (commission 12,500 + 7,500)	20,000	20,000
Stock on Consignment Dr. / To Consignment	102,000	102,000

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Consignment Dr. / To Profit & Loss (profit transferred)	11,000	11,000
Goods Sent on Consignment Dr. / To Trading Account	300,000	300,000
Bank Dr. / To Nazir (draft received)	115,000	115,000

(c) Ledger Accounts in the Books of the Consignor

The Consignment Account is the venture's profit statement. Debited with goods sent Rs. 300,000, consignor's expenses Rs. 6,000, consignee's expenses Rs. 15,000 and commission Rs. 20,000, and with the profit of Rs. 11,000 transferred to Profit and Loss, its debit side totals Rs. 352,000; credited with sales Rs. 250,000 and stock on consignment Rs. 102,000, its credit side also totals Rs. 352,000, and the account balances exactly. Nazir's personal account tells the complementary story: debited only with the sales he effected, Rs. 250,000, and credited with the bill accepted Rs. 100,000, expenses Rs. 15,000, commission Rs. 20,000 and the closing draft Rs. 115,000, it too totals Rs. 250,000 on both sides and closes with no balance, which is precisely what should happen when an agent has fully accounted. If either account refused to balance, the error would lie in the account sales workings, and the student would know where to look.

Goods Sent on Consignment Account is credited Rs. 300,000 when the toys are dispatched and debited Rs. 300,000 on transfer to the Trading Account, and Stock on Consignment Account stands debited with Rs. 102,000, to be carried into the consignor's Balance Sheet as an asset and opened as the starting stock of the next period's consignment accounting. Together these

accounts preserve the essential truth of the arrangement: of toys costing Rs. 300,000, the portion costing Rs. 200,000 has been sold, the portion costing Rs. 100,000 (Rs. 102,000 with its share of direct expenses) is still the consignor's property in the agent's hands, and the venture has so far earned Rs. 11,000.

Consignment Account — Debit	Rs.	Credit	Rs.
To Goods Sent on Consignment	300,000	By Nazir (sales)	250,000
To Cash (packing & freight)	6,000	By Stock on Consignment	102,000
To Nazir (selling expenses)	15,000		
To Nazir (commission)	20,000		
To Profit & Loss (profit)	11,000		
Total	**352,000**	**Total**	**352,000**

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Conclusion

In conclusion: the account sales shows Rs. 215,000 due from Nazir, of which Rs. 100,000 was covered by the bill accepted and Rs. 115,000 is remitted by bank draft; the journal entries record

the dispatch, the bill, the sales, the expenses and commission, the stock and the transfer of profit; and the ledger shows a profit on consignment of Rs. 11,000 with stock on consignment of Rs. 102,000 carried forward. The two booklet defects — the August 2023 date printed for a July 2025 consignment, and the name 'Mr. Nabil' in part (c) where the narrative names the consignor NUMAN — are noted openly above and do not affect any figure, because the quantities, prices, percentages and expenses printed in the question are complete and consistent.

Question 4

Q. 4 Hamdan established a business on July 01, 2026, with a capital of Rs. 1400,000. He introduced Rs. 350,000 as additional investment and withdrew Rs. 150,000 during the year. On 30th June 2026, he has assets of Rs. 1400,000 and liabilities of Rs. 160,000. You are required to calculate the profit or loss of Hamad's business for the year ending on 30th June 2026. (20) [Booklet defects — see transparency note: the printed year-end (30 June 2026) falls one day BEFORE the printed start date (1 July 2026), the capital and asset figures are printed 'Rs. 1400,000', and the owner is named both Hamdan and Hamad.]

Introduction and Transparency Note on the Booklet

Transparency note (booklet defects, quoted exactly): the question prints that 'Hamdan established a business on July 01, 2026' and then asks for the result 'for the year ending on 30th June 2026', with assets and liabilities stated 'On 30th June 2026'. A year ending on 30 June 2026 cannot follow a business established on 1 July 2026; the closing date as printed is one day before the opening date, so one of the two years is a misprint — most plausibly the business was established on 1 July 2025 for a year ending 30 June 2026, or it was established on 1 July 2026 for a year ending 30 June 2027. The question also prints the capital and the assets in the unusual

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form ‘Rs. 1400,000’, read here as Rs. 1,400,000, and it names the owner first ‘Hamdan’ and then ‘Hamad’. This guide states all three defects openly, adopts the only reading under which the figures form one complete year (an opening capital, movements during the year, and a closing position), and shows that the calculation itself is unaffected by which of the two plausible year corrections was intended, because every amount needed is printed.

This is, in miniature, the same capital comparison method examined at full length in Question 2 of this assignment. It is set, deliberately, with the smallest possible set of ingredients: an opening capital, one additional investment, one withdrawal, and a single closing statement of assets and liabilities. Its purpose is to test whether the student can assemble the profit formula correctly and in the correct order, and — just as importantly — whether the student can explain why each adjustment is made, because in a one-line calculation there is nowhere for a memorised but uncomprehended formula to hide. The answer below therefore gives the computation first, then a full explanation of each element, then a proof, and finally a discussion of the result and of the defects in the printed dates.

Step 1 — Closing Capital from Assets and Liabilities

Capital is the owner's residual interest in the business: what would remain for the owner if all the assets were realised and all the outside liabilities were paid. It follows directly from the accounting equation, Assets equals Liabilities plus Capital, rearranged as Capital equals Assets minus Liabilities. At the year-end date the business has assets of Rs. 1,400,000 and liabilities of Rs. 160,000, so the closing capital is 1,400,000 minus 160,000, which is Rs. 1,240,000. This figure is the equivalent of the closing capital that a full Statement of Affairs would reveal, and it is the starting point of the profit calculation. It is worth pausing on why no further detail is needed: the question does not ask what the assets consist of, because for the single purpose of

measuring the change in the owner's wealth during the year, only their total matters. The composition of the assets would matter for judging liquidity or solvency, but not for this computation.

Students should also note what the closing figure already contains. The Rs. 1,240,000 is not the profit; it is the owner's stake at the end, which reflects everything that has happened during the year — the original investment, the extra money put in, the money taken out, and the trading result, all merged together. The whole task of the next step is to unmerge them: to strip out the owner's own transactions with the business so that only the trading result, the profit or loss earned from dealing with the outside world, remains.

Step 2 — The Profit Calculation

The standard formula, applied in strict order, is as follows. Start with closing capital, Rs. 1,240,000. Add back drawings, Rs. 150,000: the owner withdrew that amount for personal use during the year, which reduced the capital standing in the business at the year-end, but a withdrawal is an appropriation of the owner's stake, not a business expense, so it must be restored before the comparison is made; the subtotal becomes Rs. 1,390,000. Deduct additional investment, Rs. 350,000: the owner introduced fresh capital during the year, which increased the closing capital, but money brought in from the owner's own pocket is not income earned from customers, so it must be removed; the subtotal becomes Rs. 1,040,000. Deduct opening capital, Rs. 1,400,000: this is the stake with which the year began, and the trading result is precisely the change in the stake after the owner's own movements have been eliminated. The result is 1,040,000 minus 1,400,000, a negative figure of Rs. 360,000. Hamdan's business has therefore made a net loss of Rs. 360,000 for the year.

The proof is a simple reconstruction, and it should always be performed. Begin with opening capital Rs. 1,400,000; add additional investment Rs. 350,000, giving Rs. 1,750,000; deduct drawings Rs. 150,000, giving Rs. 1,600,000; that is the capital that would stand in the business at the year-end if the trading result had been exactly zero. The actual closing capital is Rs. 1,240,000. The shortfall, 1,600,000 minus 1,240,000, is Rs. 360,000, and a shortfall on this reconstruction can only be a loss, since every other cause of change in capital has already been accounted for. The two methods agree to the rupee, which confirms both the arithmetic and the direction of every adjustment.

Particulars	Rs.
Closing capital (Assets 1,400,000 − Liabilities 160,000)	1,240,000
Add: Drawings during the year	150,000
Sub-total	1,390,000
Less: Additional investment during the year	(350,000)
Less: Opening capital	(1,400,000)
Net Loss for the year	(360,000)

Why Each Adjustment Is Made — and the Errors to Avoid

Each adjustment protects the calculation against a specific misunderstanding, and examiners set questions like this one to expose exactly those misunderstandings. If drawings were not added back, the loss would be overstated by Rs. 150,000, and the owner would in effect be treating his

own personal spending as if the business had failed to earn that money in trade. If additional investment were not deducted, the loss would be understated by Rs. 350,000, flattering the business with capital that came from the owner's savings rather than from customers. If opening capital were compared with closing capital without any adjustments at all, the apparent movement would be a fall of only Rs. 160,000 (from 1,400,000 to 1,240,000), which happens, confusingly, to equal the liabilities figure and has nothing to do with the true result; the genuine loss of Rs. 360,000 is more than twice that naive figure, which shows how seriously an unadjusted comparison can mislead a sole trader about the health of his business.

The result itself also tells a coherent story when read with the other figures. The owner committed substantial funds — Rs. 1,400,000 at the start and a further Rs. 350,000 during the year, perhaps precisely because the business was consuming cash — and still withdrew Rs. 150,000, yet the enterprise ended the year worth Rs. 360,000 less than the adjusted stake. A loss of this size relative to the capital employed (roughly a quarter of the opening capital) would, in practice, demand investigation: under single entry he cannot tell whether the cause is pricing, costs, unrecorded expenses, unrecorded drawings of goods, or errors in the closing asset and liability figures, because the method depends entirely on those closing totals being complete and correctly valued. If, for example, a liability of Rs. 50,000 had been forgotten at the year-end, closing capital would be overstated by Rs. 50,000 and the reported loss understated by the same amount, with no internal check to reveal the omission. That fragility is the standing weakness of the method and the standing argument for double entry.

Conclusion

In conclusion, closing capital is Rs. 1,240,000 (assets Rs. 1,400,000 minus liabilities Rs. 160,000), and after adding back drawings of Rs. 150,000 and deducting additional investment of

Rs. 350,000 and opening capital of Rs. 1,400,000, the business shows a net loss of Rs. 360,000 for the year, proved by reconstructing the expected capital of Rs. 1,600,000 against the actual Rs. 1,240,000. The printed dates contain an impossibility — a year 'ending on 30th June 2026' for a business 'established on July 01, 2026' — and the owner is named both Hamdan and Hamad with figures printed as 'Rs. 1400,000'; these defects are noted openly, and under the only sensible reading of one complete trading year they affect no figure in the calculation.

Question 5

Q. 5 Differentiate a Non-Trading Concern by explaining its key characteristics and primary objectives. (20)

Introduction

A non-trading concern is an organisation formed not to earn profit from buying and selling, but to provide a service, promote a cause or serve its members. Clubs, societies, schools, hospitals, libraries, charitable institutions, professional bodies and welfare centres such as the Human Care Centre of Question 1 are familiar examples. The word 'differentiate' in the question is important: the examiner does not want a bare list, but an explanation that brings out, feature by feature, how such an organisation differs from a trading concern — a sole trader, partnership or company run for profit. This answer therefore defines the non-trading concern, explains its key characteristics one by one, sets out its primary objectives, and then presents the contrast with a trading concern in a structured comparison, because accounting treatment always follows organisational purpose: it is because these bodies do not trade for profit that they keep a Receipts and Payments Account, prepare an Income and Expenditure Account, speak of surplus and deficit instead of profit and loss, and accumulate a Capital Fund instead of owners' capital.

Key Characteristics

First, purpose and motive. A non-trading concern is service-oriented: its reason for existing is the welfare of its members or of society — education, health, sport, recreation, relief or culture — and any surplus it generates is an incidental by-product of prudent management, not its goal. It does not buy goods for resale in the ordinary course, and where it does run an incidental activity, such as a club canteen or a refreshment room, that activity exists to serve members and is accounted for separately so that its net result can be seen. Second, ownership and capital. There is no proprietor and there are no shareholders in the commercial sense; members contribute subscriptions and entrance fees, donors give donations, and these accumulate in a general fund usually called the Capital Fund or Accumulated Fund, which belongs to the institution itself and can never be divided among members as profit. Third, the bar on distribution: no dividend, bonus or share of surplus may be paid to members, which is the sharpest legal and practical line between the two types of organisation — in a trading concern distribution of profit to owners is the whole point; in a non-trading concern it is prohibited by the body's own rules.

Fourth, sources of income are distinctive: subscriptions from members (often its financial backbone), entrance fees, donations and grants, legacies, rent from facilities such as lockers or halls, and small surpluses from incidental activities. Fifth, management is democratic and honorary: an elected managing or executive committee runs the affairs, office-bearers such as the secretary commonly serve without salary (receiving at most an honorarium, as in Question 1), and the committee is answerable to the members at a general meeting. Sixth, its legal personality is usually that of a registered society, trust or incorporated charity rather than a commercial firm, and it may enjoy exemptions and concessions because of its public or mutual purpose. Seventh, its accounts are dominated by stewardship: because the committee spends other people's money

— members' subscriptions and donors' gifts — the accounts must demonstrate that funds, especially funds donated for a specific purpose such as a building or a prize, were used exactly as intended; specific funds are therefore kept separate from the general fund, and a donation for a stated purpose is credited to that fund, never treated as free income.

Primary Objectives

The primary objectives follow from those characteristics. The first objective is the provision of the service or benefit for which the body was formed — treatment for patients, books for readers, facilities for sportsmen, education for students, relief for the needy — provided as well and as widely as the resources allow, and usually at charges (if any) set to cover costs rather than to maximise a margin. The second objective is the promotion of its cause: a literary society exists to spread reading, a professional body to uphold standards, a welfare centre to relieve hardship, and its programme of activities, not its balance sheet, is the true measure of whether it is succeeding. The third objective is sound stewardship and continuity: subscriptions and donations must be collected, recorded and spent honestly, reserves must be maintained so that the institution survives from year to year, and facilities must be preserved for future members, which is why accumulating a reasonable surplus is not merely permitted but prudent — a surplus is the means by which a non-trading concern renews its equipment and extends its work, provided it is applied to the institution's purposes and never distributed.

The fourth objective is accountability to members, donors and, where public money or charitable status is involved, to regulators and the public. Annual accounts are presented and approved at a general meeting, auditors are appointed, and special funds are reported separately. A fifth objective, closely related, is mutual benefit and fellowship among members — the club or society is a community, and its social and developmental value to members is an end in itself.

None of these objectives can be reduced to a single financial figure, which is why judging a non-trading concern by its surplus alone is as misleading as judging a trading concern by its social programme; each type must be assessed against its own objectives, and its final accounts are designed to make exactly that assessment possible.

The Contrast with a Trading Concern and Its Accounting Consequences

The comparison can be summarised as follows. Motive: service versus profit. Ownership: members collectively through a fund versus proprietor, partners or shareholders. Distribution: prohibited versus the central purpose. Main income: subscriptions and donations versus sales revenue. Management: elected honorary committee versus owners or paid directors answerable for returns. Final accounts: Receipts and Payments Account and Income and Expenditure Account with a Balance Sheet versus Trading and Profit and Loss Account with a Balance Sheet. Terminology: surplus or deficit, and Capital Fund, versus net profit or net loss, and capital. That last row is not a mere matter of vocabulary. The Receipts and Payments Account is a cash summary prepared because members need to see, simply and completely, what cash came in and what was spent; the Income and Expenditure Account then converts that cash record onto the accrual basis, adjusting subscriptions for arrears and advances and expenses for amounts outstanding and prepaid, exactly as Question 1 of this assignment required, so that the true cost of the year's activities can be matched against the year's income. Depreciation is charged in that account just as in a business, because assets wear out whether or not their owner trades, and capital receipts such as life membership fees or specific donations are taken to the Balance Sheet or to special funds rather than flattering a single year's income.

It should also be noted, for completeness and accuracy, that the boundary is one of purpose, not of competence or size. A large hospital or university may employ professional accountants, keep

full double-entry records and handle sums far larger than a small trading firm, yet it remains a non-trading concern because of why it exists and what it may do with its surplus. Conversely, a small club that begins selling goods to the general public as a regular commercial venture may create a trading activity whose results must be separately accounted for and may have tax consequences. The classification follows the dominant purpose and the treatment of the surplus, and a student who grasps that test can classify any organisation the examiner describes.

Basis	Non-Trading Concern	Trading Concern
Main motive	Service to members / society	Earning profit
Ownership	Members; Capital (Accumulated) Fund	Proprietor / partners / shareholders
Distribution of surplus	Prohibited; retained for the institution	Profit distributed to owners
Main income	Subscriptions, donations, grants	Sales of goods / services
Final accounts	Receipts & Payments; Income & Expenditure	Trading; Profit & Loss
Result called	**Surplus or Deficit**	Net Profit or Net Loss

Conclusion

In conclusion, a non-trading concern is differentiated by its service motive, its collectively held Capital Fund, its prohibition on distributing surpluses, its reliance on subscriptions and

donations, its honorary elected management, and its stewardship obligation toward members and donors; its primary objectives are to provide its service, promote its cause, preserve itself through prudent accumulation, and account faithfully for funds entrusted to it. Its accounting — Receipts and Payments, Income and Expenditure, surplus and deficit — is the direct expression of those characteristics, and the student who can trace each accounting practice back to the organisational feature that causes it has fully answered the instruction to differentiate, rather than merely to describe.

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