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## Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	438 Code
Course Name:	Principles of Accounting
Class:	B.Com/ADC
Total Credit Hours	3
Total Assignments	2

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

**نوٹ:** ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



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## Assignment 2

### Q. 1. Statement of Affairs and Profit & Loss from single entry records (Ruhi Trader)

#### Given data:

As of 31st December 2022:

- Cash in hand = 25,000
- Cash at bank = 40,000
- Account Receivables = 70,000
- Stock = 65,000
- Land & Building = 300,000
- Office Furniture = 150,000
- Office Equipment = 80,000
- Account Payables = 95,000
- Bills Payables = 30,000

As of 31st December 2023:

- Cash in hand = 40,000
- Cash at bank = 60,000
- Account Receivables = 110,000
- Stock = 85,000
- Account Payables = 75,000
- Bills Payable = 45,000

Depreciation rates on original cost (original cost same as given values):

- Land & Building: 5%
- Office Furniture: 15%
- Office Equipment: 10%

During the year 2023:

- Drawings = Rs. 158,000
- Additional capital invested = Rs. 112,000



## Step 1: Calculate Capital as of 31-12-2022 (Statement of Affairs)

### Assets at 31-12-2022:

- Cash in hand = 25,000
- Cash at bank = 40,000
- Account Receivables = 70,000
- Stock = 65,000
- Land & Building = 300,000
- Office Furniture = 150,000
- Office Equipment = 80,000
- **Total Assets = 730,000**

### Liabilities at 31-12-2022:

- Account Payables = 95,000
- Bills Payables = 30,000
- **Total Liabilities = 125,000**

**Capital (31-12-2022) = Total Assets – Total Liabilities = 730,000 – 125,000 = Rs. 605,000**

## Step 2: Calculate Capital as of 31-12-2023 (before depreciation and profit adjustment)

### Assets at 31-12-2023:

- Cash in hand = 40,000
- Cash at bank = 60,000
- Account Receivables = 110,000
- Stock = 85,000
- Land & Building = 300,000 (original cost)
- Office Furniture = 150,000 (original cost)
- Office Equipment = 80,000 (original cost)
- **Total Assets = 825,000**

### Liabilities at 31-12-2023:

- Account Payables = 75,000
- Bills Payable = 45,000
- **Total Liabilities = 120,000**



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**Capital (before depreciation and profit) = 825,000 – 120,000 = 705,000**

### Step 3: Adjust for depreciation (charged on original cost)

- Depreciation on Land & Building = 300,000 × 5% = 15,000
- Depreciation on Office Furniture = 150,000 × 15% = 22,500
- Depreciation on Office Equipment = 80,000 × 10% = 8,000
- **Total Depreciation = 45,500**

Depreciation reduces capital (expense). So adjusted closing capital before drawings and additional capital = 705,000 – 45,500 = 659,500

### Step 4: Calculate Profit

Formula:

Closing Capital (adjusted) = Opening Capital + Additional Capital – Drawings + Profit

Therefore:

Profit = Closing Capital – Opening Capital – Additional Capital + Drawings

Profit = 659,500 – 605,000 – 112,000 + 158,000  
= (659,500 – 605,000) = 54,500  
54,500 – 112,000 = –57,500  
–57,500 + 158,000 = **100,500**

**Net Profit for the year ended 31-12-2023 = Rs. 100,500**

### Step 5: Statement of Affairs (summaries)

#### Statement of Affairs as of 31-12-2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Account Payables	95,000	Cash in hand	25,000
Bills Payables	30,000	Cash at bank	40,000
Capital (balancing figure)	605,000	Account Receivables	70,000
		Stock	65,000



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		Land & Building	300,000
		Office Furniture	150,000
		Office Equipment	80,000
<b>Total</b>	<b>730,000</b>	<b>Total</b>	<b>730,000</b>

### Statement of Affairs as of 31-12-2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Account Payables	75,000	Cash in hand	40,000
Bills Payables	45,000	Cash at bank	60,000
Capital (before adjustments)	705,000	Account Receivables	110,000
<b>Total</b>	<b>825,000</b>	Stock	85,000
		Land & Building	300,000
		Office Furniture	150,000
		Office Equipment	80,000
		<b>Total</b>	<b>825,000</b>

### Profit & Loss Account for the year ended 31-12-2023

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Depreciation:		By Gross Profit (balancing)	100,500
Land & Building	15,000		
Office Furniture	22,500		
Office Equipment	8,000		
To Net Profit transferred to Capital	100,500		
<b>Total</b>	<b>146,000?</b> No – need to recompute properly.		

Actually under single entry, we directly compute net profit as derived above (100,500). There is no need to allocate to expenses in detail; the profit figure includes all operating results.



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**Statement of Profit or Loss (for the period ended 31-12-2023) – using net worth method:**

Item	Amount (Rs.)
Capital as of 31-12-2023 (before depreciation)	705,000
Less: Depreciation	(45,500)
Adjusted Capital (31-12-2023)	659,500
Less: Capital as of 31-12-2022	(605,000)
Increase in capital	54,500
Add: Drawings	158,000
Less: Additional capital introduced	(112,000)
<b>Net Profit</b>	<b>100,500</b>

## Q. 2. Bank Reconciliation Statement (Double balance method)

### Given:

Passbook balance (credited) as of 31st March 2024 = Rs. 500,000

Cash book balance (as per books) = Rs. 408,750

### Discrepancy items:

- Cheque for Rs. 100,000 paid on March 5th – Rs. 80,000 credited on March 25th, remaining Rs. 20,000 on April 5th.  
– At March 31, only Rs. 80,000 was credited in passbook, but full Rs. 100,000 recorded in cash book.  
– Effect: Cash book balance is lower by Rs. 20,000 (because cash book shows full payment, passbook shows only 80,000 reduction). So add Rs. 20,000 to passbook balance to reconcile? Let's structure properly.
- Interest on investments collected by bank = Rs. 1,750 (credited in passbook, not in cash book) → Add to cash book.
- Bank charges = Rs. 500 (debited in passbook, not in cash book) → Deduct from cash book.
- Cheque issued to creditor Rs. 85,000 not presented till March 31 → Deduct from passbook balance (or add to cash book).
- Cheque of Rs. 25,000 deposited on March 29 but omitted from cash book → Add to cash book.

We will use the **double balance method** (reconcile both balances to correct figure).



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## Step 1: Start with Cash Book balance (Rs. 408,750) and adjust to get adjusted cash book balance.

### Additions to Cash Book:

- Interest on investments (not recorded) = 1,750
  - Cheque deposited but omitted (Rs. 25,000) = 25,000
- Total additions = 26,750

### Deductions from Cash Book:

- Bank charges (not recorded) = 500
- Total deductions = 500

**Adjusted Cash Book Balance** = 408,750 + 26,750 – 500 = **435,000**

## Step 2: Start with Passbook balance (Rs. 500,000) and adjust.

### Deductions from Passbook (to bring down to same adjusted balance):

- Cheque issued but not presented (Rs. 85,000) – passbook shows higher balance because payment not yet deducted → subtract 85,000.
- The cheque of Rs. 100,000: only Rs. 80,000 cleared; Rs. 20,000 not cleared by March 31. Passbook shows higher balance by Rs. 20,000 → subtract 20,000.

Total deductions = 85,000 + 20,000 = 105,000

**Additions to Passbook:** None? Actually the interest and bank charges are already reflected in passbook, so we adjust cash book for them. No addition to passbook needed.

**Adjusted Passbook Balance** = 500,000 – 105,000 = **395,000** – This does NOT match 435,000!  
There is a discrepancy. Let's re-evaluate.

Better approach: We need to reconcile so that both adjusted balances equal. Let's do proper bank reconciliation statement.

## Bank Reconciliation Statement as of 31st March 2024 (Double balance method)



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Particulars	Amount (Rs.)	Amount (Rs.)
<b>Balance as per Cash Book</b>		408,750
Add:		
Interest on investments collected by bank (not in cash book)	1,750	
Cheque deposited but omitted from cash book (Rs. 25,000)	25,000	
Cheque issued but not presented (Rs. 85,000) – Actually this should be added to cash book? No, careful: If cheque issued but not presented, cash book balance is already reduced, but passbook is not. To reconcile, we add to cash book? Let's follow standard: Cheque issued but not presented → add to cash book balance. So:		
Add: Cheque issued not presented	85,000	
Subtotal additions		111,750
Total after additions		520,500
Less:		
Cheque payment not yet cleared by bank (Rs. 20,000 of the 100,000 cheque) – This means cash book shows full payment, passbook shows only 80,000 deduction. So cash book is lower by 20,000. To reconcile, we subtract from cash book? Actually we want adjusted cash book = passbook. Passbook is higher by 20,000, so we subtract from cash book? Let's do differently:		

I realize the confusion. Let me present a clean, standard reconciliation:

**Bank Reconciliation Statement (as on 31-03-2024)**

Particulars	(+) Rs.	(-) Rs.
Balance as per Cash Book	408,750	
Add: Cheque issued but not presented to bank (Rs. 85,000)	85,000	
Add: Interest on investments collected by bank (not recorded)	1,750	
Add: Cheque deposited but omitted from cash book (Rs. 25,000)	25,000	
Less: Bank charges not recorded in cash book		500
Less: Cheque of Rs. 100,000 paid – only Rs. 80,000 cleared; Rs. 20,000 not yet cleared (thus cash book shows extra deduction)		20,000
<b>Adjusted Balance (should equal passbook)</b>	<b>520,500</b>	<b>20,500</b>
Net adjusted = 520,500 – 20,500 = 500,000		



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So adjusted balance = Rs. 500,000 which matches passbook.

**Answer:** Adjusted balance = Rs. 500,000.

### Q. 3. Partnership admission of Z – Goodwill treatment

#### Given data:

Balance Sheet as of 31st December 2024:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry Creditors	320,000	Cash at bank	20,000
Bills Payable	60,000	Bills Receivable	30,000
General Reserve	40,000	Stock	80,000
Capital X	80,000	Investment	40,000
Capital Y	60,000	Machinery	190,000
		Building	200,000
<b>Total</b>	<b>560,000</b>	<b>Total</b>	<b>560,000</b>

Profit-sharing ratio of X and Y = 2:3.

New partner Z brings capital = Rs. 40,000.

New profit-sharing ratio (X:Y:Z) = 5:6:7.

**Goodwill valuation:** 3 years purchase of average profit of last 4 years.

Profits: Year1 = 22,000; Year2 = 16,000; Year3 = -8,000; Year4 = 18,000.

Total profit = 22,000 + 16,000 – 8,000 + 18,000 = 48,000

Average profit = 48,000 / 4 = 12,000

Goodwill = 3 × 12,000 = Rs. 36,000

#### Sacrificing ratio calculation:

Old ratio X:Y = 2:3 = 4:6 (denominator 10)

New ratio = 5:6:7 (denominator 18)

X sacrifice =  $2/5 - 5/18 = (36 - 25)/90 = 11/90$



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$$Y \text{ sacrifice} = 3/5 - 6/18 = (54 - 30)/90 = 24/90$$

$$Z \text{ gain} = 7/18 = 35/90 \text{ (sum } 11+24=35)$$

Goodwill to be credited to X and Y in sacrificing ratio = 11:24.

### Case (i): Goodwill paid privately (no entry in books)

No journal entry for goodwill. Only record Z's capital brought in.

#### Journal Entry:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Jan 1	Cash A/c	40,000	
			To Z's Capital A/c
	(Being capital brought in by Z)		40,000

#### Balance Sheet after admission (Goodwill not shown):

Assets: Cash increases by 40,000 → new cash = 20,000 + 40,000 = 60,000.

Other assets unchanged.

Liabilities unchanged.

Capital: X = 80,000; Y = 60,000; Z = 40,000. General Reserve (40,000) – but usually distributed to old partners? The problem does not say; we assume retained as reserve.

$$\text{Total assets} = 60,000 + 30,000 + 80,000 + 40,000 + 190,000 + 200,000 = 600,000$$

$$\text{Total liabilities + capital} = 320,000 + 60,000 + 40,000 \text{ (reserve)} + 80,000 + 60,000 + 40,000 = 600,000.$$

### Case (ii): Goodwill paid in cash and retained in business

Z pays his share of goodwill in cash. Since goodwill is Rs. 36,000, Z's share (7/18) = 36,000 × 7/18 = 14,000. This amount is paid by Z and distributed to X and Y in sacrificing ratio (11:24).

$$X \text{ gets} = 14,000 \times 11/35 = 4,400$$

$$Y \text{ gets} = 14,000 \times 24/35 = 9,600$$



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### Journal Entries:

1. For cash brought in by Z (capital + goodwill):

○ Total cash from Z = Capital 40,000 + Goodwill 14,000 = 54,000

○ Entry:

| Cash A/c | 54,000 | |

| | | To Z's Capital A/c | 40,000 |

| | | To Goodwill A/c | 14,000 |

2. To distribute goodwill among old partners:

| Goodwill A/c | 14,000 | |

| | | To X's Capital A/c | 4,400 |

| | | To Y's Capital A/c | 9,600 |

3. If goodwill is to be retained (shown as asset), no further entry. But if goodwill is written off (usually after admission), we can also show it as asset.

### Balance Sheet after admission (Goodwill retained as asset):

#### Assets:

- Cash = 20,000 + 54,000 = 74,000
- Bills Receivable = 30,000
- Stock = 80,000
- Investment = 40,000
- Machinery = 190,000
- Building = 200,000
- Goodwill = 14,000
- Total Assets = 628,000

#### Liabilities:

- Sundry Creditors = 320,000
- Bills Payable = 60,000
- General Reserve = 40,000

#### Capital:

- X = 80,000 + 4,400 = 84,400
- Y = 60,000 + 9,600 = 69,600
- Z = 40,000
- Total Capital = 194,000



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Liabilities + Capital = 320,000+60,000+40,000+194,000 = 614,000? Not matching 628,000. There is a difference – we forgot that the goodwill paid by Z is already included in cash, but we also added goodwill as asset. The total should balance. Let's re-calc:

Total cash after admission = 20,000 (old) + 54,000 = 74,000.

Total assets = 74,000 + 30,000 + 80,000 + 40,000 + 190,000 + 200,000 + 14,000 = 628,000.

Total liabilities + capital = 320,000 + 60,000 + 40,000 (reserve) + 84,400 + 69,600 + 40,000 = 614,000.

Shortfall 14,000. Why? Because the goodwill paid (14,000) is already part of cash, but we also show it as a separate asset. That double counts? Actually, when Z pays Rs. 14,000 as goodwill, that money is now in cash. If we also show an asset "Goodwill" of Rs. 14,000, total assets increase by 14,000. Liabilities+Equity should also increase by 14,000, which they do: X and Y capital increased by 14,000 (4,400+9,600). So total capital becomes 80,000+60,000+40,000 (old) + 4,400+9,600 + (Z capital 40,000) = 234,000? Wait, old capital = 140,000. Add 14,000 (goodwill distribution) = 154,000. Add Z capital 40,000 = 194,000. Plus reserve 40,000 = 234,000. Add liabilities 380,000 = 614,000. That does not reach 628,000. The 14,000 discrepancy is because the cash increased by 14,000 (from Z) but we also added goodwill asset; total assets increased by 28,000? Let's see: cash increased by 54,000 (40,000 capital + 14,000 goodwill). Net increase in assets = 54,000 (cash) + 14,000 (goodwill asset) = 68,000. Old assets were 560,000. New assets = 628,000 (increase 68,000). Liabilities+Equity increase: capital increase = Z's 40,000 + distribution 14,000 = 54,000, plus reserve unchanged = total increase 54,000. Difference 14,000 – that's the goodwill asset not matched by equity? In fact, goodwill asset should be offset by the capital increase from old partners. But we already added distribution. Actually double counting: When Z pays goodwill in cash, the business receives cash. If we then create a goodwill asset, the net effect is that assets increase by the amount of goodwill (because cash received is already included). The journal entries I wrote are correct. The balance sheet should balance if we properly include the goodwill asset and the increased capitals. Let me recalc:

Old Balance Sheet assets = 560,000.

After admission:

Cash = 20,000 + 54,000 = 74,000 (increase 54,000)

Goodwill = 14,000 (new asset)

Total new assets = 560,000 + 54,000 + 14,000 = 628,000.

Old capital + reserve = 80,000+60,000+40,000 = 180,000.

After admission:

X capital = 80,000 + 4,400 = 84,400

Y capital = 60,000 + 9,600 = 69,600

Z capital = 40,000

Reserve = 40,000 (unchanged)

Total = 84,400+69,600+40,000+40,000 = 234,000.

Liabilities = 320,000+60,000 = 380,000.



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Total Liabilities + Equity = 234,000 + 380,000 = 614,000.

Difference 14,000. That 14,000 is exactly the goodwill asset. The reason is that in the books, the goodwill asset must be written off (i.e., not retained) because it is an intangible created internally. Usually, goodwill brought in by a partner is not shown as an asset; it is distributed to old partners and then eliminated. The correct treatment is to write off goodwill immediately. So after distribution, we close the goodwill account by transferring to old partners' capital (which we already did). Then goodwill account has zero balance. Therefore, we should not show goodwill as an asset. The cash increase is 54,000, and total assets become 560,000 + 54,000 = 614,000. That matches liabilities+equity.

Hence, under method (ii) with goodwill retained, actually we do not retain it as an asset; the amount is distributed and the goodwill account is closed. So the balance sheet will be as in case (i) but with capitals adjusted: X = 84,400, Y = 69,600, Z = 40,000; cash = 74,000 (20,000 + 54,000); other assets same; total assets = 560,000 + 54,000 = 614,000 (since no goodwill asset). Liabilities same 380,000; capital+reserve = 84,400+69,600+40,000+40,000 = 234,000; total 614,000. Correct.

Thus final balance sheet for case (ii) is same as case (i) except capital amounts are higher for X and Y.

## Q. 4. Short questions (dissolution, realization account, Garner vs Murray)

### i. What does the dissolution of a partnership entail?

Dissolution of a partnership means the end of the partnership relation among partners. It may occur due to:

- Agreement among partners
- Death or retirement of a partner
- Insolvency of a partner or the firm
- Completion of a particular venture
- Court order

Upon dissolution, the business is wound up: assets are sold, liabilities are paid, and any remaining cash is distributed to partners according to their profit-sharing ratio after adjusting for capital deficiencies.

### ii. What are realization accounts?



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A realization account is a nominal account prepared at the time of dissolution of a partnership firm to record the sale of assets and payment of liabilities. It is used to determine the profit or loss on realization.

- All assets (except cash) are transferred to the debit side of realization account at book value.
- All liabilities (except partner's capital) are transferred to the credit side at book value.
- The actual sale proceeds of assets are credited to realization account.
- The actual payment of liabilities is debited to realization account.
- The balance (profit or loss) is transferred to partners' capital accounts in their profit-sharing ratio.

### iii. What are the consequences of the Garner vs. Murray case?

In the Garner vs. Murray case (1904), the court laid down the rule for the treatment of insolvency of a partner at the time of dissolution. The consequences are:

- The solvent partners must bear the loss arising from the insolvent partner's capital deficiency in **their capital ratio** (not profit-sharing ratio), after applying the Garner vs. Murray rule.
- The rule applies only when a partner becomes insolvent (cannot pay his debt) and his capital account shows a debit balance (deficiency).
- The deficiency is transferred to the solvent partners' capital accounts in the ratio of their **last agreed capitals** (or in the ratio of their capitals after all adjustments except the deficiency).

### iv. In what situations is the Garner vs. Murray ruling applicable?

The Garner vs. Murray rule is applicable when:

- A partnership is being dissolved.
- One or more partners are insolvent (unable to pay their debts).
- The insolvent partner's capital account shows a debit balance (deficiency) after all other adjustments (realization, profit/loss, etc.).
- There is no agreement to the contrary among the partners.

It does not apply if:

- All partners are solvent.
- The partnership agreement contains a different method for dealing with insolvency.
- The deficiency can be met from the insolvent partner's private estate.



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## Q. 5. Short questions (rectification of errors, net worth method formula, capital calculation, capital vs revenue expenditure)

### i. Rectification of errors

a. Monthly total of Rs. 180 discount allowed column of the cash book was posted to the credit of the discount received account.

*Error:* Discount allowed (debit expense) was wrongly credited to discount received (revenue).

*Rectification:*

- Debit Discount Received Account (to cancel wrong credit) = Rs. 180
- Credit Discount Allowed Account? But discount allowed should have been debited. Actually, discount allowed column total should be debited to Discount Allowed A/c. Instead, it was credited to Discount Received A/c. So we need to:
  1. Cancel the wrong credit: Debit Discount Received A/c 180
  2. Give the correct debit: Debit Discount Allowed A/c 180
  3. No credit? Actually there is no credit – the double entry is missing. The other side of the cash book credit is already recorded as cash. So entry:  
| Discount Received A/c | 180 | |  
| Discount Allowed A/c | 180 | |  
| (To correct posting error) |

b. An amount of Rs. 3,000 paid for the erection of machinery was wrongly debited to wages A/c.

*Error:* Capital expenditure (erection cost) treated as revenue expense.

*Rectification:*

- Debit Machinery A/c (increase asset) = 3,000
- Credit Wages A/c (remove wrong expense) = 3,000

### ii. Formula for determining net profit under the net worth method

Under single entry system, net profit is calculated as:

**Net Profit = Closing Capital – Opening Capital – Additional Capital Introduced + Drawings**

Where capital is computed from the statement of affairs (assets minus liabilities).



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### iii. Capital of proprietor

Given: Assets = Rs. 10,500,000; Liabilities = Rs. 5,070,500

Capital = Assets – Liabilities = 10,500,000 – 5,070,500 = **Rs. 5,429,500**

### iv. Capital or Revenue expenditure classification

- Telephone expenses** – Revenue expenditure (operating expense, benefit within one year).
- Office salaries** – Revenue expenditure (recurring expense for business operations).
- Purchase a secondhand truck** – Capital expenditure (asset acquired for long-term use; benefit over several years).
- Paid for advertising** – Generally revenue expenditure (promotion for current sales). However, if advertising is for launching a new product and benefits extend beyond one year, it may be treated as deferred revenue expenditure. Usually, it is revenue.



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