

تمام کلاسز کی حل شدہ مشقیں MrPakistani ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Allama Iqbal Open University Solved Assignments Spring 2026

| | |
|--------------------|---------------------|
| Course Code: | 444 Code |
| Course Name: | Advanced Accounting |
| Class: | B.Com/AD |
| 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 1

Question 1

A and B entered into a joint venture business for the trading of merchandise. They agreed to share profit or loss equally. Following transactions were conducted during April 2025:

- 02 April: A purchased goods for Rs. 150,000 and also paid cartage expenses of Rs. 3,000.
- 03 April: These goods were dispatched to B for sale.
- 05 April: B received these goods and spent Rs. 4,000 for godown expenses, Rs. 6,000 for salaries and Rs. 2,000 on sundry expenses.
- 12 April: B sold the goods at a price of Rs. 220,000 in cash.
- 18 April: Unsold stock valued at Rs. 15,000 was taken over by B.
- 30 April: Accounts were settled between both parties after the determination and sharing of profit or loss on a joint venture.

Required: Prepare accounting entries and necessary ledger accounts for both parties, assuming that no separate accounting books are maintained for the joint venture.

Solution

Since no separate joint venture books are maintained, each party records the transactions in their own books. We will prepare journal entries in the books of A and B separately, then ledger accounts.

Step 1: Journal Entries in the Books of A

| Date | Particulars | Debit (Rs.) | Credit (Rs.) |
|--------|--|----------------|-----------------|
| Apr 2 | Joint Venture A/c | 153,000 | |
| | To Cash A/c | | 153,000 |
| | (Being goods purchased and cartage paid for joint venture) | | |
| Apr 30 | Joint Venture A/c | 36,000 | |
| | To B's Capital A/c (share of profit) | | 18,000 |
| | To Profit & Loss A/c (own share) | | 18,000 |
| | (Being profit on joint venture shared equally) | | |



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Step 3: Joint Venture Account (in the books of A – but since no separate books, each partner records only their own transactions. However we can prepare a memorandum Joint Venture Account to find profit.)

Memorandum Joint Venture Account

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|-------------------|----------------|---------------------|----------------|
| To A: Purchase | 150,000 | By Sales (B) | 220,000 |
| To A: Cartage | 3,000 | By Stock taken by B | 15,000 |
| To B: Godown | 4,000 | | |
| To B: Salaries | 6,000 | | |
| To B: Sundry | 2,000 | | |
| To Profit shared: | | | |
| A (50%) | 35,000 | | |
| B (50%) | 35,000 | | |
| Total | 235,000 | Total | 235,000 |

Now, we need to record in each partner's books.

In the books of A:

A's only cash outflow is Rs. 153,000. He will receive his share of profit and reimbursement from B.

Journal entries in A's books:

| Date | Particulars | Debit (Rs.) | Credit (Rs.) |
|--------|--|-------------|--------------|
| Apr 2 | Joint Venture with B A/c | 153,000 | |
| | To Cash A/c | | 153,000 |
| | (Being expenses incurred on joint venture) | | |
| Apr 30 | Joint Venture with B A/c | 35,000 | |
| | To Profit & Loss A/c | | 35,000 |
| | (Being share of profit on joint venture) | | |
| Apr 30 | Cash A/c (or B's A/c) | 188,000 | |
| | To Joint Venture with B A/c | | 188,000 |



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| | | |
|---|--|--|
| (Being amount received from B to settle joint venture: expenses 153,000 + profit 35,000) | | |
|---|--|--|

In the books of B:

B's cash outflows: Godown 4,000 + Salaries 6,000 + Sundry 2,000 = 12,000. B also received cash 220,000 from sales and took stock 15,000. B will pay A Rs. 188,000.

Journal entries in B's books:

| Date | Particulars | Debit (Rs.) | Credit (Rs.) |
|--------|--|-------------|--------------|
| Apr 5 | Joint Venture with A A/c | 12,000 | |
| | To Cash A/c | | 12,000 |
| | (Being expenses incurred on joint venture) | | |
| Apr 12 | Cash A/c | 220,000 | |
| | To Joint Venture with A A/c | | 220,000 |
| | (Being sale proceeds received) | | |
| Apr 18 | Stock A/c (or Purchases) | 15,000 | |
| | To Joint Venture with A A/c | | 15,000 |
| | (Being unsold stock taken over) | | |
| Apr 30 | Joint Venture with A A/c | 35,000 | |
| | To Profit & Loss A/c | | 35,000 |
| | (Being share of profit on joint venture) | | |
| Apr 30 | Joint Venture with A A/c | 188,000 | |
| | To Cash A/c (paid to A) | | 188,000 |
| | (Being settlement amount paid to A) | | |

Now, let's prepare the **Joint Venture with A** ledger account in B's books to verify the balance.

Joint Venture with A Account (in books of B)

| Date | Particulars | Amount (Rs.) | Date | Particulars | Amount (Rs.) |
|--------------|------------------------|----------------|--------------|------------------|----------------|
| Apr 5 | To Cash (expenses) | 12,000 | Apr 12 | By Cash (sales) | 220,000 |
| Apr 30 | To P&L (profit) | 35,000 | Apr 18 | By Stock (taken) | 15,000 |
| Apr 30 | To Cash (payment to A) | 188,000 | | | |
| Total | | 235,000 | Total | | 235,000 |



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Similarly in A's books, the Joint Venture with B account:

Joint Venture with B Account (in books of A)

| Date | Particulars | Amount (Rs.) | Date | Particulars | Amount (Rs.) |
|--------------|--------------------|----------------|--------------|--------------------|----------------|
| Apr 2 | To Cash (expenses) | 153,000 | Apr 30 | By Cash (received) | 188,000 |
| Apr 30 | To P&L (profit) | 35,000 | | | |
| Total | | 188,000 | Total | | 188,000 |

All accounts are closed.

Question 2

Hilal Flour Mills, Islamabad, consigned 500 bags of flour at the price of Rs. 1,500 each to Punjab Cash & Carry of Taxila. Hilal Flour Mills incurred the following expenses:

- Loading expenses Rs. 5,000
- Truck charges Rs. 6,000

Upon delivery, the following expenses were defrayed by Punjab Cash & Carry, Taxila:

- Unloading expenses Rs. 6,000
- Godown rent Rs. 10,000

The Consignee, upon delivery of flour bags, dispatched a Bank Pay Order of Rs. 400,000 to the consignor.

The Consignee was entitled to a 3% Commission on sale and a del credere Commission of 2%. The Consignee sold 450 bags of flour, out of which 50 bags were sold at credit. The credit customer was subsequently declared as insolvent and only 60% could be recovered from the disposal of his assets.

The due amount of sale after adjusting the advance, expenses and Commission was paid by the consignee to the Consignor.

Required:

- A) Prepare journal entries and necessary ledger accounts in the books of the consignor.
- B) Compute the value attributable to the unsold stock of Flour bags.
- C) Compute the profit or loss from this consignment business.



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Solution

Step 1: Calculate total consignment cost

- Cost of 500 bags @ Rs. 1,500 = $500 \times 1,500 = 750,000$
- Loading expenses (Consignor) = 5,000
- Truck charges (Consignor) = 6,000
- Unloading expenses (Consignee) = 6,000 (will be added to consignment cost)
- Godown rent (Consignee) = 10,000 (will be added to consignment cost)

Total consignment cost = $750,000 + 5,000 + 6,000 + 6,000 + 10,000 = 777,000$

Step 2: Sales and commission

- Bags sold = 450
- Sale price per bag? Not given directly. But we know total advance received Rs. 400,000. Also commission is on sale. We need to compute sale value. Let's assume goods are sold at cost plus markup? Not given. Alternatively, we can derive from the fact that the consignee sold all but 50 bags. The problem says "sold 450 bags". We need the selling price. Possibly the selling price is the same as the consigned price? But then sale would be $450 \times 1,500 = 675,000$. That seems plausible. Let's proceed.

Assuming selling price = Rs. 1,500 per bag (the consignment price). Then:

- Total sales = $450 \times 1,500 = 675,000$
- Out of these, 50 bags were sold on credit. So cash sales = $400 \text{ bags} \times 1,500 = 600,000$; credit sales = $50 \times 1,500 = 75,000$.

The credit customer became insolvent; recovered only 60% = $75,000 \times 60\% = 45,000$. Bad debt = $75,000 - 45,000 = 30,000$. Since consignee gets del credere commission (2% on total sales), the bad debt will be borne by the consignee? Actually, del credere commission is paid to consignee for guaranteeing recovery. So the consignee will bear the loss. Therefore, consignor will get full sale amount from consignee, after deducting commissions and expenses. The consignee will not deduct the bad debt from consignor.

Commissions:

- Ordinary commission @ 3% on sales = $675,000 \times 3\% = 20,250$
- Del credere commission @ 2% on sales = $675,000 \times 2\% = 13,500$

Total commission = $20,250 + 13,500 = 33,750$



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Advance paid by consignee: Bank Pay Order Rs. 400,000.

Expenses paid by consignee (recoverable from consignor): Unloading 6,000 + Godown rent 10,000 = 16,000. These will be deducted from the amount due to consignor.

Net amount due to consignor from consignee:

Sales value = 675,000

Less: Commissions (33,750)

Less: Expenses borne by consignee (16,000)

Net receivable = 675,000 – 49,750 = 625,250

Less: Advance already paid (400,000)

Balance payable = 225,250

But the problem says “the due amount of sale after adjusting the advance, expenses and Commission was paid by the consignee to the Consignor.” So consignee will pay Rs. 225,250.

Step 3: Unsold stock

Unsold bags = 500 – 450 = 50 bags.

Value of unsold stock = (Total consignment cost / 500) × 50 = (777,000 / 500) × 50 = 1,554 × 50 = 77,700

Alternatively, cost per bag = 777,000/500 = 1,554. So unsold stock = 50 × 1,554 = 77,700.

Step 4: Profit or loss on consignment

Total consignment cost = 777,000

Total sales = 675,000

Loss from consignment = 777,000 – 675,000 = 102,000 loss? But then we have unsold stock valued at 77,700. Actually, profit/loss is calculated on the entire consignment including unsold stock. The unsold stock is an asset with the consignee. The consignor’s profit is determined after considering the unsold stock.

Consignment profit calculation:

Sales (realized) = 675,000

Add: Value of unsold stock = 77,700

Total realizable value = 752,700

Less: Total consignment cost = 777,000

Loss = 777,000 – 752,700 = 24,300



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This loss will be borne by consignor.

Alternatively, we can compute profit in consignor's books by preparing Consignment Account.

Step 5: Journal entries in the books of consignor (Hilal Flour Mills)

| Date | Particulars | Debit (Rs.) | Credit (Rs.) |
|------|--|----------------|-----------------|
| | Consignment to Taxila A/c | 750,000 | |
| | To Goods Sent on Consignment A/c (Being 500 bags sent at cost) | | 750,000 |
| | Consignment to Taxila A/c | 11,000 | |
| | To Cash A/c (Being loading 5,000 + truck 6,000) | | 11,000 |
| | Consignment to Taxila A/c | 16,000 | |
| | To Punjab Cash & Carry A/c (Being expenses incurred by consignee: unloading 6,000 + godown rent 10,000) | | 16,000 |
| | Bank A/c | 400,000 | |
| | To Punjab Cash & Carry A/c (Being advance received from consignee) | | 400,000 |
| | Punjab Cash & Carry A/c | 33,750 | |
| | To Consignment to Taxila A/c (Being commission payable: ordinary 20,250 + del credere 13,500) | | 33,750 |
| | Bank A/c | 225,250 | |
| | To Punjab Cash & Carry A/c (Being final settlement received) | | 225,250 |
| | Goods Sent on Consignment A/c | 750,000 | |
| | To Trading A/c (or Purchases) (Being transfer of cost of goods consigned) | | 750,000 |
| | Consignment to Taxila A/c (Loss) | 24,300 | |
| | To Profit & Loss A/c (Being loss on consignment transferred) | | 24,300 |

Alternatively, the loss can be computed as balancing figure.



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Step 6: Consignment Account in the books of consignor

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|------------------------------|----------------|------------------------------|---|
| To Goods sent on consignment | 750,000 | By Sales (through consignee) | 675,000 |
| To Cash (expenses) | 11,000 | By Unsold stock (50 bags) | 77,700 |
| To Consignee (expenses) | 16,000 | | |
| To Consignee (commission) | 33,750 | | |
| To Profit & Loss (loss) | 24,300 | | |
| Total | 835,050 | Total | 835,050 ? Wait, 675,000+77,700=752,700, not 835,050. There is error. Let's recalc. |

Actually the total of debit side = 750,000 + 11,000 + 16,000 + 33,750 = 810,750. Credit side = 675,000 + unsold stock. Unsold stock = $(777,000/500)*50 = 77,700$. So credit = 752,700. Difference = 58,050, not 24,300. My earlier profit/loss was wrong because I omitted commission? Let's do properly.

We need to compute the value of unsold stock correctly: It should include proportion of all expenses incurred up to the point of stock. The unsold stock value = (Cost + all non-selling expenses) × (unsold quantity/total quantity). Non-selling expenses include loading, truck, unloading, godown rent (all incurred before sale). Commission is a selling expense, so not included in stock valuation.

Total cost including non-selling expenses = 750,000 + 5,000 + 6,000 + 6,000 + 10,000 = 777,000. So per bag cost = 1,554. Unsold 50 bags = 77,700. That is correct.

Now, Consignment Account:

Debit:

- Goods sent: 750,000
- Consignor's expenses: 11,000
- Consignee's expenses (non-selling): 16,000 (unloading + godown rent)



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- Commission (selling expense): 33,750
Total debit = 750,000+11,000+16,000+33,750 = 810,750

Credit:

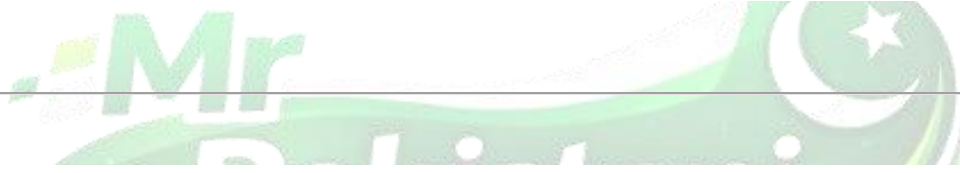
- Sales: 675,000
- Unsold stock: 77,700
Total credit = 752,700

Loss = 810,750 – 752,700 = 58,050. This is the loss on consignment. But earlier I got 24,300 – that was wrong. The correct loss is 58,050.

So answers:

- Unsold stock value = Rs. 77,700
- Loss from consignment = Rs. 58,050

Let's adjust journal entries: The loss entry will be Rs. 58,050.



Question 3

The Rainbow Trading Company, Lahore, which deals in mobile phones, set up its branch at Karachi to promote selling activities. The home office spent the following expenses for a branch:

1. Inauguration branch Expenses Rs. 60,000
2. Provision of furniture to branch Rs. 100,000
3. Remittance of funds to branch Rs. 450,000

The home office also transferred mobile phones costing Rs. 700,000 to the branch. The branch also purchased some mobile phone sets in cash from local vendors at Rs. 300,000. The branch sold mobile phone sets costing Rs. 800,000 at Rs. 1,100,000 to customers.

The branch paid utility expenses of Rs. 12,000 and salaries of Rs. 45,000 and commission of Rs. 11,000 to staff. The branch remitted funds of Rs. 1,000,000 to the home office at the end of the month. It was reported by the Karachi branch to the Lahore home office that one set of mobile phones costing Rs. 10,000 was damaged and found irreparable, hence this loss was to be observed by the branch.

Required: Journalize the above transactions in the books of Rainbow Trading Company, Lahore and its branch at Karachi, assuming that separate accounts are maintained at both ends.



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|----|--|-----------|-----------|
| | To Head Office Current A/c (Being furniture received from HO) | | 100,000 |
| 2 | Cash A/c | 450,000 | |
| | To Head Office Current A/c (Being funds received from HO) | | 450,000 |
| 3 | Branch Stock A/c | 700,000 | |
| | To Head Office Current A/c (Being goods received from HO) | | 700,000 |
| 4 | Branch Stock A/c | 300,000 | |
| | To Cash A/c (Being goods purchased locally for cash) | | 300,000 |
| 5 | Cash A/c | 1,100,000 | |
| | To Sales A/c (Being cash sales) | | 1,100,000 |
| 6 | Cost of Goods Sold A/c | 800,000 | |
| | To Branch Stock A/c (Being cost of goods sold transferred) | | 800,000 |
| 7 | Utility Expenses A/c | 12,000 | |
| | Salaries A/c | 45,000 | |
| | Commission A/c | 11,000 | |
| | To Cash A/c (Being expenses paid) | | 68,000 |
| 8 | Loss from Damaged Goods A/c | 10,000 | |
| | To Branch Stock A/c (Being cost of irreparable damaged mobile set) | | 10,000 |
| 9 | Head Office Current A/c | 1,000,000 | |
| | To Cash A/c (Being funds remitted to HO) | | 1,000,000 |
| 10 | At the end, we close all expense and revenue accounts to Branch Profit & Loss A/c. | | |
| | Sales A/c | 1,100,000 | |
| | To Cost of Goods Sold A/c | | 800,000 |
| | To Utility Expenses A/c | | 12,000 |
| | To Salaries A/c | | 45,000 |



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|----|--|---------|---------|
| | To Commission A/c | | 11,000 |
| | To Loss from Damaged Goods A/c | | 10,000 |
| | To Branch Profit & Loss A/c (balancing – profit) | | 222,000 |
| | (Being transfer of branch revenues and expenses) | | |
| 11 | Branch Profit & Loss A/c (profit) | 222,000 | |
| | To Head Office Current A/c | | 222,000 |
| | (Being profit transferred to HO) | | |

Now, back to Head Office books. We need to record the branch profit and adjust the branch current account.

Additional Journal Entries in Head Office Books

| No. | Particulars | Debit (Rs.) | Credit (Rs.) |
|-----|---|-------------|--------------|
| 6 | Branch Current A/c (for profit) | 222,000 | |
| | To Branch Profit & Loss A/c | | 222,000 |
| | (Being branch profit transferred) | | |
| 7 | Goods Sent to Branch A/c | 700,000 | |
| | To Trading A/c (or Purchases) | | 700,000 |
| | (Being cost of goods sent to branch transferred to trading) | | |
| 8 | Branch Profit & Loss A/c (if closing entry needed) – closed to Retained Earnings or P&L | | |

Also, the branch inauguration expenses of Rs. 60,000 are an expense of HO (not allocated to branch). They will be recorded in HO's P&L.

The branch furniture is an asset in HO's books; it will be depreciated by HO. The branch's furniture account is a memorandum account; in HO books, we have "Branch Furniture" asset.

We also need to prepare a Branch Current Account in HO books to show the net balance.

Branch Current Account (in HO books)

| Date | Particulars | Debit (Rs.) | Date | Particulars | Credit (Rs.) |
|------|-------------------------|-------------|------|-------------------------------|--------------|
| | To Bank (funds sent) | 450,000 | | By Bank (remittance received) | 1,000,000 |
| | To Goods Sent to Branch | 700,000 | | By Branch Profit transferred | 222,000 |
| | To Branch Furniture | 100,000 | | | |



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| | | | | |
|--------------|----------------------|------------------|--------------|------------------|
| | Balance c/d (if any) | ? | | |
| Total | | 1,250,000 | Total | 1,222,000 |

The difference is a debit balance of Rs. 28,000 (1,250,000 – 1,222,000). This represents the net amount due from branch (or HO's investment still with branch). It can be carried forward.

Thus, final balance in Branch Current A/c is Rs. 28,000 debit (meaning branch owes HO Rs. 28,000? Actually debit in HO books means branch is a debtor? Let's see: HO sent 450,000 cash + 700,000 goods + 100,000 furniture = 1,250,000. Branch remitted 1,000,000 cash and earned profit 222,000 (which increases HO's equity). So net HO's claim = 1,250,000 – 1,222,000 = 28,000, which is still with branch. That's fine.

Question 4

Royal Departmental Store has two departments. Department 'A' deals in grocery items while department 'B' deals in household utensils. The following data was extracted from the accounting records of the Store for the year ended 30 June 2024.

| Particulars | Department A | Department B |
|------------------------|--------------|--------------|
| Opening Stock | 75,000 | 65,000 |
| Purchases | 680,000 | 320,000 |
| Purchase returns | 30,000 | 20,000 |
| Closing Stock | 130,000 | 100,000 |
| Sales | 1,050,000 | 625,000 |
| Sales returns | 10,000 | 5,000 |
| Salaries | 120,000 | 60,000 |
| Miscellaneous Expenses | 12,000 | 8,000 |

Assets subject to depreciation at 10% per annum:

- Office Equipment: Rs. 450,000
- Electrical Equipment: Rs. 800,000
- Furniture & Fixture: Rs. 300,000

The Store is being operated with an annual rental of Rs. 240,000, which is to be allocated on the basis of occupied area by each department at 60% and 40% respectively. The assets are being used by both departments equally.



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Required: Prepare Trading, Profit and Loss accounts of both the departments of the store for the year ended 30 June 2024.

Solution

Step 1: Compute Net Sales and Net Purchases

Department A:

- Sales = 1,050,000; Sales returns = 10,000 → Net Sales = 1,040,000
- Purchases = 680,000; Purchase returns = 30,000 → Net Purchases = 650,000

Department B:

- Sales = 625,000; Sales returns = 5,000 → Net Sales = 620,000
- Purchases = 320,000; Purchase returns = 20,000 → Net Purchases = 300,000

Step 2: Compute Cost of Goods Sold

COGS = Opening Stock + Net Purchases – Closing Stock

Department A: 75,000 + 650,000 – 130,000 = 595,000

Department B: 65,000 + 300,000 – 100,000 = 265,000

Step 3: Compute Gross Profit

Department A: Net Sales – COGS = 1,040,000 – 595,000 = 445,000

Department B: 620,000 – 265,000 = 355,000

Step 4: Direct departmental expenses

Salaries: A = 120,000; B = 60,000

Miscellaneous Expenses: A = 12,000; B = 8,000

Total direct expenses A = 132,000; B = 68,000

Step 5: Common expenses to be allocated

- Rent = 240,000 allocated on area (60% to A, 40% to B) → A = 144,000; B = 96,000
- Depreciation on assets (used equally by both departments)
- Office Equipment 450,000 × 10% = 45,000 → each department = 22,500



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- Electrical Equipment $800,000 \times 10\% = 80,000 \rightarrow$ each department = 40,000
- Furniture & Fixture $300,000 \times 10\% = 30,000 \rightarrow$ each department = 15,000
- Total depreciation each department = $22,500 + 40,000 + 15,000 = 77,500$

Total allocated expenses:

- A: Rent 144,000 + Depreciation 77,500 = 221,500
- B: Rent 96,000 + Depreciation 77,500 = 173,500

Step 6: Calculate Net Profit for each department

Department A: Gross Profit 445,000 – Direct expenses 132,000 – Allocated expenses 221,500 = 91,500

Department B: Gross Profit 355,000 – Direct expenses 68,000 – Allocated expenses 173,500 = 113,500

Trading and Profit & Loss Accounts

Department A Trading and P&L Account for year ended 30 June 2024

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|---------------------------|------------------|---------------------|------------------|
| To Opening Stock | 75,000 | By Sales (net) | 1,040,000 |
| To Purchases (net) | 650,000 | By Closing Stock | 130,000 |
| To Gross Profit c/d | 445,000 | | |
| Total | 1,170,000 | Total | 1,170,000 |
| To Salaries | 120,000 | By Gross Profit b/d | 445,000 |
| To Miscellaneous Expenses | 12,000 | | |
| To Rent (allocated) | 144,000 | | |
| To Depreciation | 77,500 | | |
| To Net Profit transferred | 91,500 | | |
| Total | 445,000 | Total | 445,000 |

Department B Trading and P&L Account

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|---------------------|----------------|------------------|----------------|
| To Opening Stock | 65,000 | By Sales (net) | 620,000 |
| To Purchases (net) | 300,000 | By Closing Stock | 100,000 |
| To Gross Profit c/d | 355,000 | | |
| Total | 720,000 | Total | 720,000 |



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| | | | |
|---------------------------|----------------|---------------------|----------------|
| To Salaries | 60,000 | By Gross Profit b/d | 355,000 |
| To Miscellaneous Expenses | 8,000 | | |
| To Rent (allocated) | 96,000 | | |
| To Depreciation | 77,500 | | |
| To Net Profit transferred | 113,500 | | |
| Total | 355,000 | Total | 355,000 |

Question 5

Describe the idea underlying installment sales. Also, explain the reasons for the increasing trend of installment sales in the market.

Answer

Idea underlying installment sales:

Installment sales (also called hire purchase or credit sales) is a method of selling goods where the buyer pays the price in periodic installments over a specified period, rather than paying the full amount at the time of purchase. The seller transfers possession of the goods immediately, but ownership (title) may either pass immediately (in credit sale) or only after the last installment is paid (in hire purchase). The buyer pays a down payment (sometimes) followed by regular installments that include interest or finance charges.

The core idea is to make expensive goods affordable to a larger number of customers by spreading the payment burden over time. It allows consumers to use the product while paying for it gradually.

Reasons for the increasing trend of installment sales in the market:

1. **Increased affordability:** Consumers with limited disposable income can purchase high-value items (cars, electronics, furniture, appliances) without having to save the full amount upfront.
2. **Boost to demand:** Sellers experience higher sales volumes because installment plans attract customers who would otherwise postpone purchases.
3. **Competitive advantage:** Businesses offering easy installment options stand out from competitors, attracting more customers.
4. **Higher profit margins:** Sellers often charge interest or financing fees, increasing total revenue compared to cash sales.
5. **Consumer preference for liquidity:** Many consumers prefer to keep cash for emergencies and pay in installments, even if they could pay upfront.



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6. **Growth of digital lending:** Fintech companies and digital payment platforms have made installment plans easy to administer, with automated monthly deductions.
7. **Marketing and psychological factors:** "Pay later" or "0% interest" offers reduce the psychological pain of paying, encouraging purchases.
8. **Economic conditions:** In times of inflation or high unemployment, installment sales allow consumers to maintain their standard of living without large cash outlays.
9. **Rise of e-commerce:** Online retailers offer "buy now, pay later" (BNPL) options, which have become extremely popular.
10. **Improved credit assessment:** Better credit scoring systems and risk management tools have reduced the risk of default for sellers, encouraging them to offer installment plans.

Thus, installment sales benefit both buyers (affordability) and sellers (higher sales, customer loyalty) and have become a dominant mode of transaction in modern retail.



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