

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD  
(COL MBA/MPA Program)**

**ACCOUNTING AND FINANCE (5566)**

**CHECK LIST**

**SEMESTER: AUTUMN, 2013**

This packet comprises the following material:-

1. Text Books
2. Assignment No. 1, 2
3. Assignment Forms (two sets)
4. Course outlines

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

**Mailing Officer  
Services Block No. 28  
Allama Iqbal Open University  
H-8, Islamabad**

Wishing you all the best

*Salman A. Qureshi*  
(Course Coordinator)

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD  
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**WARNING**

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

**Course: Accounting and Finance (5566)**  
**Level: COL MBA/MPA**

**Semester: Autumn, 2013**  
**Total Marks: 100**

**Instructions**

- (a) All written assignment must be well organized, presented in an easy-to-read format and neat. Moreover, pay particularly close attention to grammar, spelling, punctuation and understandability. Communication is extremely important in this course.
- (b) Documentation is likewise very important. Un-supported statements or opinions are worth less to the reader, who desires to verify your finding. Complete and specific documentation is mandatory. Also, your references should be to primary sources, except in rare unusual situation.
- (c) Quoting should be kept to an absolute minimum.

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**Guidelines for Doing Assignments**

We expect you to answer each question as per instructions in the assignment. You will find it useful to keep the following points in mind:

- 1) **Planning:** Read the assignments carefully, go through the Units on which they are based. Make some points regarding each question and then rearrange them in a logical order.
- 2) **Organization:** Be a little selective and analytical before drawing up a rough outline of your answer. Give adequate attention to question's introduction and conclusion.  
Make sure that:
  - a) The answer is logical and coherent,
  - b) It has clear connections between sentences and paragraphs,
  - c) The presentation is correct in your own expression and style.
- 3) **Presentation:** Once you are satisfied with your answer, you can write down the final version for submission. It is mandatory to write all assignments neatly. If you so desire, you may underlining the points you wish to emphasize. Make sure that the answer is within the stipulated word limit.

Wishing you all the best.

## ASSIGNMENT No. 1

- Q. 1 (a) What is meant by the term financial reporting? What is the principal accounting reports involved in the financial reporting process? In general terms, what is the purpose of these reports? **(10)**
- (b) Identify several ways in which you currently use accounting information in your life as a student? Do all business entities engage in financial reporting? How does society benefit from the financial reporting process? **(10)**
- Q. 2 Nasir Bajwa, an interior decorator, completed the following transactions during the month of April 2002. **(20)**
- April 02 Began his business with equipment valued at Rs.1,23,000 and placed Rs.2,00,000 in a business bank account
- April 03 Purchased a used Suzuki pickup costing Rs.50,000 and paid by cheque.
- April 04 Purchased supplies on account, Rs.3,200.
- April 05 completed painting a two storey house and billed the customer, Rs.24,800.
- April 07 Received cash for painting two rooms, Rs.5000.
- April 08 Hired an assistant to work with him, to be paid Rs.100 per day.
- April 10 Purchased supplies for Rs.14,600 and paid by cheque.
- April 11 Received cheque from customer previously billed, Rs.24,800.
- April 12 Paid by cheque Rs.10,000 on insurance policy for 18 months.
- April 13 Billed customer for painting job Rs.6,200.
- April 14 Paid assistant for six day work, Rs.600 cash.
- April 15 Paid cash Rs.150 for tuning of the pickup.
- April 18 Paid cheque for supplies purchased on April 04.
- April 20 Purchased new equipment for Rs.600 and supplies for Rs.2900 on account.
- April 22 Received telephone bill to be paid next month, Rs.600.
- April 23 Received cash from customer previously billed, Rs.3,300. It was deposited in the bank.
- April 24 Transferred Rs.3000 to personal bank account.
- April 25 Received cheque for painting five rooms apartment, Rs.33,600.
- April 29 Paid assistant for 15 days work Rs.1500.

**Required:**

- a. Prepare journal entries to record the above transactions in the general journal.
- b. Setup the "T" account and post all the journal entries.
- Q. 3 At the end of first month operation, June 2001, Khalid Plumbing services had the following accounts balances: **(20)**
- |                |           |           |           |
|----------------|-----------|-----------|-----------|
| Cash           | Rs.29,300 | Tools     | Rs.23,800 |
| Debtors        | Rs.15,400 | Creditors | Rs.1400   |
| Delivery Truck | Rs.69,000 |           |           |
- In addition, during June, the following transactions affected owner's equity:

Investment by Khalid	Rs.20,000
Repair revenue	Rs.32,800
Drawing	Rs.12,000
Salaries	Rs.28,300
Further investment by Khalid	Rs.30,000
Rent	Rs.7,000
Contract revenue	Rs.51,600
Fuel expense	Rs.4,200

**Required: Prepare balance sheet.**

Q. 4 The following data are adapted from the annual report of Gateway computers: **(20)**

Balance Sheet:	<b>1996</b>	<b>1995</b>
Quick Assets	\$574	497
Current Assets	866	649
Average Stockholders' equity	466	350
Average total Assets	950	760

**Income statement data:**

Net sales	3,676	2,701
Gross Profit	616	358
Operating income	249	141
Net income	173	96

**Required:**

- a. Compute the following for 1996 and 1995.
    1. Working Capital
    2. Current Ratio
    3. Quick Ratio
  - b. Comments on the trends in the liquidity measures and state whether Gateway appears to be solvent at the end of 1996.
  - c. Compute the percentage changes for 1996 in the amounts of net sales and net income.
  - d. Compute the following for 1996 and 1995
    - a. Gross profit rate
    - b. Net income as a percentage of sales
    - c. Return on average assets
    - d. Return on average stockholders' equity
  - e. Comments on the trends in the profitability measures computed in part c and d.
- Q. 5 What is the meaning of internal rate of return? Is there any relationship between internal rate and payback period? What is meant by net Present Value? Explain with suitable example. **(20)**

## ASSIGNMENT No. 2

**Total Marks: 100**

### **Instructions:**

1. This assignment is a research-oriented activity. You are required to develop a term paper and submit to the tutor for evaluation prior to the final examination. The last date of this assignment will be notified separately by our directorate of regional services and the same will be communicated to you directly as well as through approved study centers assigned to you.
2. You will have to participate in the activity fully, actively, and practically to be eligible to sit in the final examination of the course.
3. For the preparation of this assignment, you should first thoroughly review the conceptual framework of the topic and develop a scholarly material of the same giving references, quotations, and extracts of various scholars and experts. Then visit any business/commercial organization and study the relevant practical aspects there. Combining the theoretical and practical aspects, develop a comprehensive paper consisting of at least 20 to 25 typed pages to be submitted to your tutor.
  - a) Introduction to the topic
  - b) Important sub-topics
  - c) Practical study of the organization with respect to the topic
  - d) Review of theoretical and practical situations, merits, de-merits deficiencies or strengths of the organization with respect to the topic under study.
  - e) Conclusion and recommendation
  - f) Annex, if any
4. Prepare a copy of this assignment and submit to your tutor for your evaluation.
5. You should add any illustrative material/data/tables/analysis for effective submission.
6. If you fail to submit this assignment in the class, then you will not be able to sit in the final examination conducted by AIOU.

A number of topics given below are the general aspects of the course and you are required to select one of the topics according to the last digit of your roll number. For example, if the roll number is N-9337241, you will select topic number 1, and if the roll number is O-3427185 then you will select topic number 5 (the last digit).

### **List of Topics**

0. Accounting Information System
1. Accounting for Plant Assets (Acquisition and Disposal)
2. Accounting for Non-Profit Organization
3. Construction and Analysis of Fund Statements
4. Marginal Costing and Cost Volume Profit Analysis
5. Budgetary Control and Investment Appraisal Methods
6. Analyzing Working Capital
7. Dividend Decision for Share Holders
8. Financial decision in a Electronic Industry.
9. Role of Accounting Information System in Pakistan.

## **ACCOUNTING AND FINANCE (5566)**

### **Course Outline**

- UNIT-1: ACCORDING AND ITS FUNCTIONS**
- Scope of Accounting
  - Emerging Role of Accounting
  - Accounting as an Information System
  - Role and Activities of an Accountant
  - Accounting Personnel
  - Nature of Accounting Function
  - Organization for Accounting and Finance
- UNIT-2: ACCOUNTING CONCEPTS AND STATEMENTS**
- Accounting Framework
  - Accounting Concepts
  - Accounting Standards
  - Changing Nature of GAAP
  - Attempts towards Standardization
  - Accounting Standards in India
- UNIT-3: ACCOUNTING INFORMATION AND ITS APPLICATIONS**
- Purposes of Accounting Information
  - Accounting and Control in Organization
  - Profit and Cash Balance Distinguished
  - Uses of Earnings Information
  - Uses of Balance Sheet
- UNIT-4: CONSTRUCTION AND ANALYSIS OF BALANCE SHEET**
- Conceptual Basis of a Balance Sheet
  - Constructing a Balance Sheet
  - Balance Sheet Contents
  - Form and Classification of Items
- UNIT-5: CONSTRUCTION AND ANALYSIS OF PROFIT AND LOSS ACCOUNT**
- Profit and Loss Account and Balance Sheet: The Linkage
  - Measurement of Income
  - Preparation of Profit and Loss Account
  - Sonic Indirect Expenses
  - Methods of Depreciation
  - Form of Profit and Loss Account
  - Cost of Goods Sold
  - Methods of Inventory Valuation
  - Complete understanding of Gross Profit, Operating Profit, Net Profit
- UNIT-6: CONSTRUCTION AND ANALYSIS OF FUND FLOW STATEMENT**
- Working Capital and its Need
  - Determining Working Capital Requirements
  - Sources of Funds
  - Uses (Applications) of Funds.
  - Factors Affecting Fund Requirements
  - Analyzing Changes in Working Capital
  - Fund Flow Statement

**UNIT-7: UNDERSTANDING AND CLASSIFYING COST**

- Cost Accounting
- Costs
- Elements of Cost
- Components of Total Cost
- Cost Sheet
- Classification of Costs
- Some Other Concepts of Costs

**UNIT-8: ABSORPTION AND MARGINAL COSTING**

- Absorption Costing
- Marginal Costing
- Absorption Costing and Marginal Costing: Differences
- Marginal Cost
- Segregation of Semi-variable Costs
- Contribution
- Break-even Analysis
- Utility of Marginal Costing
- Limitations of marginal costing

**UNIT-9: COST –VOLUME-PROFIT ANALYSIS**

- What is Cost-Volume-Profit Analysis?
- Interplay and Impact of Factors on Profit
- Profit Graph
- Cost Segregation
- Marginal Cost and Contribution

**UNIT-10: VARIANCE ANALYSIS**

- Meaning of Variance
- Cost Variances
- Direct Material Variances
- Direct Labor Variances
- Overhead Variances
- Sales Variances
- Control of Variances
- Variance Reporting

**UNIT-11: RATIO ANALYSIS**

- Ratio Analysis
- Classification
- The Norms for Evaluation
- Computation and Purpose
- Managerial Uses of the Primary Ratio

**UNIT-12: LEVERAGE ANALYSIS**

- Concept of Financial Leverage
- Measures of Financial Leverage
- Effects of Financial Leverage
- Operating Leverage, Combined Leverage
- Financial Leverage and Risk

**UNIT-13: BUDGETING AND BUDGETARY CONTROL**

- Financial Planning
- Budget
- Budgetary Control
- Classification of Budgets
- Budget Control Ratios
- Performance Budgeting
- Zero base Budgeting

**UNIT-14: INVESTMENT APPRAISAL METHODS**

- Types of Investment Proposals
- Need for Appraisal
- Project Report
- Methods of Appraisal
- Depreciation, Tax and Inflows
- Cost of Capital
- Limitations of Investment Appraisal Techniques

**UNIT-15: MANAGEMENT OF WORKING CAPITAL**

- Significance of Working Capital, Operating Cycle, Concepts of Working Capital
- Kinds of Working Capital, Components of Working Capital
- Importance of Working Capital Management
- Determinants of Working Capital Needs
- Approaches to Managing Working Capital
- Measuring Working Capital
- Working Capital Management under Inflation
- Efficiency Criteria

**UNIT-16: MANAGING CASH NEEDS**

- Cash Needs
- Determining Optimal Cash Balance
- Cash Management
- Cash Budgeting

**UNIT-17: CAPITAL STRUCTURE**

- Capital Structure
- Features of an Appropriate Capital Structure
- Determinants of Capital Structure

**UNIT-18: DIVIDEND DECISION**

- Forms of Dividend, Dividend Policy
- Role of Financial Manager, Role of Board of Directors
- Factors Affecting Dividend Decision

