

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Business Administration)**

FINANCIAL ACCOUNTING (8501)

CHECKLIST

SEMESTER: AUTUMN, 2013

This packet comprises the following material:

1. Text Book (one)
2. Course Outlines
3. Assignment No. 1, 2
4. Assignment Forms (2 sets)

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

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**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 ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

ASSIGNMENT No. 1

Course: Financial Accounting (8501)

Semester: Autumn 2013

Level: MBA (3 ½ Years)/MBA (2 ½ Years)

Total Marks: 100

Pass Marks: 50

Q. 1 Write short notes on following:

- i) Line of credit
- ii) Accounting equation
- iii) Window dressing
- iv) Accrual base accounting
- v) Cash based accounting

(20)

Q. 2 Island Hopper is an airline providing passenger and freight service among some Pacific Islands. The accounts are adjusted and closed each month. At June 30 the trial balance shown below was prepared from the ledger.

ISLAND HOPPER Trial Balance June 30, 2001		
Cash	\$23,600	
Accounts Receivable	7,200	
Prepaid Rent	9,600	
Unexpired Insurance	21,000	
Aircraft	1,200,000	
Accumulated Depreciation: Aircraft		\$380,000
Notes Payable		600,000
Unearned passenger Revenue		60,000
Mary Earhart, Capital		230,850
Mary Earhart, Drawing	7,000	
Freight Revenue		130,950
Fuel Expense	53,800	
Salaries Expense	66,700	
Maintenance Expense	12,900	
	\$1,401,800	\$1,401,800

Other Data:

- a. The aircraft is being depreciated by the straight-line method over a period of 10 years (120 months).
- b. The amount shown as Unearned passenger Revenue represents tickets sold to customers in advance of flights. During June, \$38,650 of this amount was earned by the airline. (Credit Passenger Revenue)
- c. Salaries earned by employees but not yet paid amount to \$3,300 at June 30.

- d. Accrued interest on notes payable amounts to \$5,000 at June 30 and has not yet been recorded. Interest is paid monthly, within 10 days of the end of the month. The \$600,000 note payable matures on December 31, 2003.
- e. One of Island Hopper's regular customers is Pacific Trading Company. The airline keeps track of the weight of shipments carried for the trading company during the month and sends a bill shortly after month-end. No entry has yet been made to record \$4,600 earned in June carrying freight for Pacific Trading Company.
- f. Three months' rent (\$14,400) had been prepaid on May 1.
- g. On April 1, a 12-month insurance policy had been purchased for \$25,200.

Instructions:

- a. Prepare an income statement and balance sheet for the month ended June, 30 2001.
- b. Prepare adjusting and closing entries for 2001. **(20)**

- Q. 3 (a) The income statement approach to estimating uncollectible accounts expense is used by Burgess Wholesale. On March 31 the firm had accounts receivable in the amount of Rs.630,000. The allowance for doubtful accounts had a credit balance of Rs.3,950. The controller estimated that uncollectible account expense would amount to one half of 1% of the net sales made during March. This estimate was entered in the accounts by an adjusting entry on March 31.

On April 12, an account receivable from Conrad Stern of Rs.3,110 was determined to be worthless and was written off. However, on April 24, Stern won several thousand dollars on a TV game show and immediately paid the Rs.3,110 past due account.

Prepare journal entries to record the above events.

- (b) Explain the concept of "lower of cost or market". **(20)**

- Q. 4 (a) Bluegrass Tonight is a nightclub in Nashville. The information necessary for preparing bank reconciliation for the company at November 30 appears below:

1. As of November 30, cash per the bank statement is \$41,631 per the accounting records, \$48,609.
2. Cash receipts of \$9,366 on November 30 were not deposited until December 1.
3. Among the paid checks returned by the bank was a stolen check for \$1,512 paid in error after Bluegrass Tonight had officially notified the bank not to make payment. Thus, payment of this check was a bank error and should not have been charged against Bluegrass Tonight's bank account.
4. The following memoranda accompanied the bank statement:
 - a. A debit memo for service charges \$21
 - b. A debit memo attached to an \$1,167 check which Bluegrass had accepted from a customer and deposited in its account, but which the bank had returned with the marking "NSF"
 - c. A credit memo for interest earned on the account during November, \$135.
5. The following checks had been issued by the nightclub but had not been paid by the bank as of November 30: No.921 for \$2,346; No. 924 for \$1,446; and No. 925 for \$1,161.

Instructions:

Prepare the November 30 bank reconciliation.

Pass necessary journal entries

(10)

- (b) Caliente Products uses a perpetual inventory system. On January 1 the Inventory account had a balance of \$93,500. During the first few days of January the following transactions occurred:

- Jan 2 Purchased merchandise on credit from bell Company for \$12,500
 Jan 3 Sold merchandise for cash, \$9,000. The cost of this merchandise was \$6,300. (10)

Q. 5 Write a detailed note on the Accounting Information system by taking into account various stages of development of Accounting Information System? (20)

GUIDELINES FOR ASSIGNMENT No. 1:

You should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think?
- How well you can reflect on your knowledge & experience?
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management?
- How professional you are, and how much care and attention you give to what you do?

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

ASSIGNMENT No. 2

Total Marks: 100
Pass Marks: 50

This assignment is a research-oriented activity. You are required to obtain information from a business/commercial organization and prepare a report of about 1000 words on the issue allotted to you to be submitted to your teacher for evaluation.

You are required to select one of the following issues according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit):-

ISSUES:

0. Application of International Accounting Standards in a specific (selected by you) public limited company.
1. Select any organization and analyze the techniques used by it to minimize the credit risk.
2. Select any organization and draft its AIS
3. Study an organization to see the selection criteria of suitable depreciation method for various assets
4. Study any trading organization and see how appropriate inventory system is applied there.
5. Prepare a detail report of accounting of payroll for any specific organization selected by you.
6. Select a public limited company and discuss its IPO related issues.
7. Compare 3 years' balance sheet of any organization and highlight the variation in its shareholders' equity section. Discuss the reasons for variation as well.
8. Compare 3 years' cash flow statement of any organization and highlight the variation in its closing cash balance. Discuss the reasons for variation as well.
9. Select any organization and study the issues related to bond financing.

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

GUIDELINES FOR ASSIGNMENT No. 2:

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

WORKSHOP:

The workshop presentations provide you opportunity to express your on communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment No. 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech comments explanation etc. Workshop presentation transparencies should only be in typed format.

The transparencies should follow the following format:

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

GUIDELINES FOR WORKSHOP PRESENTATION:

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT No. 2 & WORKSHOP PRESENTATIONS

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

COURSE OUTLINE

Course: Financial Accounting
Level: MBA (3 ½ Years)/MBA (2 ½ Years)

Course Code: 8501
Credit Hours: 03

Unit-1: Introduction to Accounting

- 1.1. Evolution of Accounting
- 1.2. Accounting Theory & Conceptual Framework
- 1.3. Why Study Accounting?
- 1.4. Accounting Information System(AIS)
- 1.5. Manual, Computerized, and Computer based Accounting System
- 1.6. Basic Accounting Model
- 1.7. Financial Statements
- 1.8. Characteristics of Financial Statements
- 1.9. Constraints on Relevant, Reliable Information
- 1.10. Users of Accounting Information
- 1.11. Major Fields of Accounting

Unit-2: Recording, Year-end Adjustments and Financial Statements

- 2.1 Business Events and Business Transactions
- 2.2 Evidence and Authentication of Transactions
- 2.3 Recording Process
- 2.4 Journal and Posting in the Ledger
- 2.5 Balancing the Accounts
- 2.6 Chart of Accounts
- 2.7 Limitations of Trial Balance
- 2.8 Concept of Accruals and Deferrals
- 2.9 Need for Adjusting Entries
- 2.10 Prepaid Expenses
- 2.11 Accrued Expenses
- 2.12 Accrued Incomes
- 2.13 Depreciation
- 2.14 Adjusted Trial Balance
- 2.15 Work Sheet
- 2.16 Closing Entries
- 2.17 Preparation of Financial Statements

Unit-3: Accounting for trading organizations

- 3.1 Difference between Manufacturing and Merchandising Organizations
- 3.2 Merchandizing Activities
- 3.3 Accounting for Purchases
- 3.4 Accounting for Sales and Inventory
- 3.5 Returns, Allowances, and Discounts
- 3.6 Merchandise Reporting
- 3.7 Work Sheet for Merchandising Concern
- 3.8 Adjusting Entries
- 3.9 Closing Entries
- 3.10 Cost of Goods Sold Statement, Income Statement and Balance Sheet

Unit-4: Cash, Accounts Receivable, and Temporary Investments

- 4.1 Cash
 - 4.1.1 Cash Management
 - 4.1.2 Internal Control Over Cash
 - 4.1.3 Cash Receipts and Disbursements
 - 4.1.4 Reconciling the Bank Statements
 - 4.1.5 The Impress Petty Cash System
 - 4.1.6 The Statement of Cash Flows
- 4.2 Accounts Receivable

- 4.2.1 Uncollectible Accounts
- 4.2.2 Write-off Methods
- 4.2.3 Estimation of Credit Losses
- 4.2.4 Management of Accounts Receivable
- 4.2.5 Techniques to Minimize Credit Losses
- 4.2.6 Evaluating the Quality of Accounts Receivable
- 4.2.7 Notes Receivable and Interest Charges
- 4.2.8 Credit Card Sales
- 4.2.9 Credit Risk
- 4.3 Short Term Investments
 - 4.3.1 Purchases of Marketable Securities
 - 4.3.2 Recognition of Investment Revenue
 - 4.3.3 Adjusting Marketable Securities to Market Value
 - 4.3.4 Reporting Investment Transaction

Unit-5: Accounting Information System

- 5.1. Forms of Business
- 5.2. Introduction to Accounting Information System (AIS)?
- 5.3. Manual, Computerized, and computer based AIS
- 5.4. Using an AIS to Add Value to Business
- 5.5. Future Role of the AIS
- 5.6. Elements and Procedures of AIS
- 5.7. Development of an Accounting Information System
- 5.8. Special Journals
- 5.9. Subsidiary ledgers
- 5.10. Special journals and Posting Process

Unit-6: Accounting for Inventory & Plant Assets

- 6.1. Inventory Systems
- 6.2. Types of Inventories
- 6.3. Identifiable Costing Method
- 6.4. Cost flow Assumptions (LIFO, FIFO, ...)
- 6.5. Weighted and Moving Average Method
- 6.6. Lower of Cost or Market
- 6.7. Net Realizable Value
- 6.8. Advantages and Disadvantages of LIFO, FIFO and AVCO
- 6.9. Accounting for Property; Plant and Equipment
- 6.10. Property, Plant and Equipment
 - 6.10.1. Cost of Property, Plant and Equipment
 - 6.10.2. Subsequent Expenditure
- 6.11. Depreciation
 - 6.11.1. Depreciation Methods
 - 6.11.2. Acquisition of Plant Assets
 - 6.11.3. Disposal
 - 6.11.4. Trade-in
 - 6.11.5. Improvements
 - 6.11.6. Intangible assets and amortization
 - 6.11.7. Wasting assets and depletion

Unit-7: Partnerships

- 7.1 Partnerships, Advantages and Disadvantages
- 7.2 Partnership Deed
- 7.3 Accounts of Partnerships
- 7.4 Closing the Partnership Accounts at Year-end
- 7.5 Partnership Profits and Income Taxes

- 7.6 Dividing Partnership Net Income
- 7.7 Dissolution of Partnership
- 7.8 Liquidation of Partnership

Unit-8: Corporations

- 8.1 Corporation, Advantages and Disadvantages
- 8.2 Stockholders' Equity and Dividends.
- 8.3 Rights of Common Stockholders and Preferred Stockholders
- 8.4 Issuance, Face Value, Book Value and Market Value Of Stocks
- 8.5 Donated Capital
- 8.6 Changes in Accounting Policies
- 8.8 Earning Per Share (EPS)
- 8.9 Stock Split and Repurchase
- 8.10 Statement of Stockholders Equity
- 8.11 Statement of Retained Earnings
- 8.12 Statutory Books
- 8.13 Financial Statements

Unit-9: Special Type of Liabilities

- 9.1 Bonds
- 9.2 Bond Interest
- 9.3 Accounting for Bonds Payable
 - 9.3.1 Issue at Par
 - 9.3.2 Discount
 - 9.3.3 Premium
- 9.4 Year-end Adjustments for Bond Interest Expense
- 9.5 Bond Sinking Fund
- 9.6 Investment in Corporate Securities
- 9.7 Short-term and Long-term Investment
- 9.8 Investment in Marketable Securities
- 9.9 Accounting for Marketable Securities
- 9.10 Sale of Investment
- 9.11 Accounts of Holding Companies and Non Profit Accounting
- 9.12 Accounting for Parent, Subsidiary and Affiliates
- 9.13 Recording Inter Company Transactions
- 9.14 Methods of Accounting for Consolidations
 - 9.14.1 Consolidated Balance Sheet
 - 9.14.2 Consolidated Income Statements
 - 9.14.3 Other Consolidated Financial Statements
- 9.15 Accounting of Payroll

Recommended Books:

- Williams, J. R., Haka, S. F., Bettner, M. S., Haka, S., & Carcello, J. (2011). *Financial and Managerial Accounting* (16th ed.). New York: McGraw Hills Inc.
- Romney, M. B., & Steinbart P. J. (2011). *Accounting Information System* (12th ed.). USA: Pearson Education.
- Meigs, M. (2010). *Financial Accounting* (15th ed.). New York: McGraw Hills Inc.
- Kaluza, J. (2009). *Accounting: A Systems Approach* (8th ed.). New York: McGraw Hills Inc.
- Wallis, K. (2007). *Accounting: A Modern Approach* (8th ed.). New York: McGraw Hills Inc.

