

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)**

ADVANCED FINANCIAL ACCOUNTING (8553)

CHECKLIST

SEMESTER AUTUMN, 2013

This packet comprises the following material:

1. Text Book (One)
2. Course Outline
3. Assignment No. 1,2
4. Assignment Forms (2 sets)
5. Schedule for assignment submitting and tutorial meetings.

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
(Department of Commerce)

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".**

Course: Advanced Financial Accounting (8553)
Level: M. Com

Semester: Autumn, 2013
Total Marks: 100
Pass Marks: 50

ASSIGNMENT No. 1

(Units: 1-9)

Note: You are required to solve all questions if you are unable to understand any question of assignment, do seek help from your concerned tutor. But keep in mind that tutors are not supposed to solve the assignment questions for you.

- Q. 1 a) What is meant by 'recognition' in financial statements? And discuss the recognition criteria. Also apply the recognition criteria to: **(20)**
- i) Assets and Liabilities
 - ii) Income and Expenses
- b) Explain the following measures of financial statements with suitable examples:
- i) Historical cost
 - ii) Replacement cost
 - iii) Fair value
 - iv) Net realizable value
 - v) Economic value
- Q. 2 a) Ringo company had Rs. 900,000 of sales in each of three consecutive years 2004-2006, and it purchased merchandise costing Rs. 500,000 in each of those years. It also maintained a Rs. 200,000 inventory from the beginning to the end of the three-year period. In accounting for inventory, it made an error at the end of year 2004 that caused its year-end 2004 inventory to appear on its statements as Rs. 180,000 rather than the correct Rs. 200,000. **(20)**
- i) Determine the correct amount of the company's gross profit in each of the years 2004-2006.

- ii) Prepare comparative income statement to show the effect of this error on the company's cost of goods sold and gross profit for each of the year 2004-2006.
- b) Forex Co. purchases investments in trading securities at a cost of Rs. 56,000 on December 27, 2005 (This is its first and only purchases of such securities) At December 31, 2005, these securities had a market value of Rs. 66,000.
- i) Prepare the December 31, 2005, year-end adjusting entry for the trading securities' portfolio.
- ii) Explain how each account in the entry of Part 1 is reported in financial statements
- iii) Prepare the January 3, 2006, entry when Forex sells one-half of these securities for Rs. 30,000.

Q. 3 Poach acquired 60% of the share capital of Steal on its incorporation. The balance sheets of the two companies as at 31 December 2011 are as follows: (20)

	Poach	Steal		Poach	Steal
	Rs.'000	Rs.'000		Rs.'000	Rs.'000
Non-Current Assets			Equity		
Property, plant and equipment	200	50	Share capital	100	10
Investment in Steal	6		Retained earnings	147	73
	206	50		247	83
Current Assets			Current Liabilities		
Inventories	22	18			
Receivables - from Poach	-	38			
- other	96	21	Trade payables-to Steal	20	-
Cash	4	15	- other	61	59
	<u>122</u>	<u>92</u>		<u>81</u>	<u>59</u>
	<u>328</u>	<u>142</u>		<u>328</u>	<u>142</u>

Notes:

- i. There was cash in transit of Rs. 6,000 from Poach to Steal at the year end.
- ii. Goods dispatched by Steal to Poach before the year end with the related invoices to the value of Rs. 12,000 has not been received by Poach until 4 January 2012. Steal sold to Poach at a profit margin of 25% on selling price.
All other goods received from Steal during the year had been sold on by Poach to third parties by the year end.

Required: Prepare a consolidated balance sheet as at 31st December, 2011.

Q. 4 Jawad Corporation signed a lease agreement with Kamran Corporation for leasing a Motor Car on 1st January, 2010 for 6 years. Annual rentals are payable at the end of each year Amounting Rs. 36,002 by the Kamran Corporation. Useful life of Motor Car is 6 years and interest rate implicit in the lease is 14%. Fair value of the Leased Assets is Rs. 140,000. (20)

Required: In the books of Jawad Corporation, you are required to:

- i. Identify the type of lease.
- ii. Determine the Gross Investment in the lease and Unearned Finance Income
- iii. Prepare amortization schedule.
- iv. Prepare journal entries for the first two years.
- v. Present the Balance Sheet Extracts as at December 31, 2010 and 2011.

Q. 5 Zorb Corporation began year 2011 with the following balances in its stockholders' equity accounts. (10)

Common Stock - Rs. 10 par, 500,000 shares authorized,	
200,000 shares issued and outstanding	Rs.2,000,000
Paid-in capital in excess of par, common stock	1,000,000
Retained earnings	<u>5,000,000</u>
Total	<u><u>Rs.8,000,000</u></u>

All outstanding common stock was issued for Rs. 15 per share when the company was created. Prepare journal entries to account for the following transactions during year 2011.

- Jan. 10 The board declared a Rs. 0.10 cash dividend per share to shareholders of record Jan. 28.
- Feb. 15 Paid the cash dividend declared on January 10.
- Mar. 31 Declared a 20% stock dividend. The market value of the stock is Rs. 20 per share.
- May. 01 Distributed the stock dividend declared on March 31
- July. 01 Purchased 30,000 shares of treasury stock at Rs. 20 per share.
- Sep. 01 Sold 20,000 treasury shares at Rs. 28 cash per share.
- Dec. 01 Sold the remaining 10,000 shares of treasury stock at Rs. 6 cash per share.

Q. 6 From the following balances extracted from the books of T.A Life Insurance company, you are required to prepare the profit and loss account for the year ended on December 31, 2012, and also calculate the EPS of the year, all figures are reported in Rupees '000', except the number of shares. (10)

	Current Year Balances
(Loss)/Gain on Sale of Investments	18,750
Provision for Impairment in the Value of investment on Government Securities	28,125
Expenses Not Attributable to Statutory Funds	778,900
Surplus appropriated to shareholders fund.....	13,250,000
Tax Expense	5,194,075
weighted Average Number of Ordinary Shares	1,567,800
Gain on Sale of Fixed Asset.....	128,875
Others Revenue	90,475
Return on Government Securities	1,601,350
Return on Other Fixed Income Securities and Deposits	217,575
Amortization of Discount/Premium Relative to Par	125
Dividend Income	383,325
Provision for Impairment in the Value of investment on Listed Equities.....	378,225
Investment related expenses.....	2,575

GUIDELINES FOR ASSIGNMENT # 1

The student 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

(Units: 1-9)

Total Marks: 100

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-3427182 then you will select issue # 2 (the last digit): -

ISSUES:

- 0- Rule Based Accounting Vs Principles Based Accounting
- 1- An Introduction to International Financial Reporting Standards (IFRS)
- 2- A comprehensive study on International Accounting Standard 17 (IAS 17)
- 3- The Regulatory Frame Work of Accounting
- 4- Accounting for Merchandizing Business
- 5- A comprehensive study on International Accounting Standard 2 (IAS 2)
- 6- Presentation of Annual Accounts of Banking Companies with reference to Banking Companies Ordinance 1962.
- 7- Accounts of Insurance Companies
- 8- A comprehensive study on International Accounting Standard 27 (IAS 27)
- 9- An Accounting Information System of an entity

The report should follow the following format:

- i) Title page
- ii) Acknowledgements
- iii) An abstract (one page summary of the paper)
- iv) Table of contents
- v) Introduction to the issue (brief history & significance of issue assigned)
- vi) Practical study of the organization (with respect to the issue)
- vii) Data collection methods
- viii) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- ix) Conclusion (one page brief covering important aspects of your report)
- x) Recommendations (specific recommendations relevant to issue assigned)
- xi) References (as per APA format)
- xii) Annexes (if any)

GUIDELINES FOR ASSIGNMENT # 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.

WORKSHOPS

The workshop presentations provide students opportunity to express their communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 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. 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 # 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%

Note:

Assignments and Presentation carry 300 Marks:

Assignment 01		100 Marks
Assignment 02	(Submission)	100 Marks
Assignment 02	(Presentation)	100 Marks

ADVANCED FINANCIAL ACCOUNTING (8553)

UNIT-1 INTRODUCTION TO REGULATORY FRAMEWORK AND CONCEPTUAL FRAMEWORK OF ACCOUNTING.

- 1.1 Introduction to International Financial Reporting Standards (IFRS) Foundation.
 - 1.1.1 The IASB (International Accounting Standards Board)
 - 1.1.2 The IFRS Interpretations Committee
 - 1.1.3 International Financial Reporting Standards (IFRS)
- 1.2 The Regulatory framework of Accounting
 - 1.2.1 The Regulatory System
 - 1.2.2 Regulatory Bodies
 - 1.2.3 Standard- Setting Process
- 1.3 The Conceptual Framework Of Accounting
 - 1.3.1 Qualitative Characteristics of financial information
 - 1.3.2 Elements of the financial statements
 - 1.3.3 Recognition of assets, liabilities, income and expenses
- 1.4 Accounting policies
- 1.5 Measurement in financial statements

UNIT-2 ACCOUNTING INFORMATION SYSTEM

- 2.1 Accounting Information Systems and Business Organizations
 - 2.1.1 Information and Decisions
 - 2.1.2 Information Systems
- 2.2 Transaction Processing Cycle
 - 2.2.1 Internal Control Process
 - 2.2.2 Elements of Internal Control Process
 - 2.2.3 Segregation of Accounting Functions
- 2.3 Accounting and Information Technology
- 2.4 The Accountant and Systems Development
- 2.5 Using AIS to add Value to Business

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 (IAS 2)
 - 3.4.1 Physical Inventory
 - 3.4.2 Perpetual 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

UNIT-4 WORKING CAPITAL ACCOUNTING

- 4.1 Cash control
 - 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
 - 4.2.1 Write-off methods
 - 4.2.2 Estimation of credit losses
 - 4.2.3 Management of accounts receivable
 - 4.2.4 Techniques to minimize credit losses
 - 4.2.5 Evaluating the quality of accounts receivable
 - 4.2.6 Notes receivable and interest charges
 - 4.2.7 Credit card sales
 - 4.2.8 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 (IAS 21,28,32)

UNIT-5 AMALGAMATION, ABSORPTION AND RECONSTRUCTION

- 5.1 Distinguishing Amalgamation, absorption and reconstruction
- 5.2 Definition of holding, subsidiary and associated undertaking, consolidated financial statements (IAS 27)
- 5.3 Determination of Purchase consideration
 - 5.3.1 Lump sum method
 - 5.3.2 Net worth method
 - 5.3.3 Net payment method
 - 5.3.4 On the basis of value of shares
- 5.4 Accounting for amalgamation
- 5.5 Accounting for absorption
 - 5.5.1 Intercompany Owings

- 5.5.2 Intercompany stocks
- 5.5.3 Intercompany holdings
- 5.6 Accounting for reconstruction
- 5.7 Reconstruction of share capital
- 5.8 Capital reduction and its legal provisions
- 5.9 Reorganization

UNIT-6 ACCOUNTS FOR JOINT STOCK COMPANIES

- 6.1 Corporation, advantages and disadvantages
- 6.2 Stockholders' equity and dividends.
- 6.3 Rights of common stockholders and preferred stockholders
- 6.4 Issuance, face value, book value and market value of stocks
- 6.5 Donated capital
- 6.6 Continued and discontinued operations
- 6.7 Changes in accounting policies
- 6.8 Earnings per share (EPS)
- 6.9 Stock split and repurchase
- 6.10 Statement of stockholders equity
- 6.11 Statement of retained earnings
- 6.12 Preparation of company accounts and consolidated financial statements as per International
- 6.13 Accounting Standard (IAS-27) and requirements of Companies Ordinance 1984

UNIT-7 ACCOUNTS OF BANKING COMPANIES

- 7.1 Banking business
- 7.2 Legal requirements relating to final accounts of banking companies
- 7.3 Accounts and Balance Sheet (Section 34)
- 7.4 Form 'A' Second Schedule of Banking Companies Ordinance 1962
- 7.5 Advantages and disadvantages of slip system
- 7.6 Bank advances
- 7.7 Schedule of Particulars Regarding Advances
- 7.8 Books of accounts
- 7.9 Internal control and check
- 7.10 Preparation of final accounts as per and Banking Companies Ordinance 1962
- 7.11 International Accounting Standard (IAS- 30)

UNIT 8 ACCOUNTS OF INSURANCE COMPANIES

- 8.1 Introduction and definition
- 8.2 Insurance in Pakistan

- 8.3 Kinds of insurance companies
- 8.4 Accounts and Audits of Insurance Business
- 8.5 Accounting of Life Insurance companies
 - 8.5.1 Statement of Investment income
 - 8.5.2 Statement of expenses
 - 8.5.3 Statement of claims
 - 8.5.4 Statement of Premium
 - 8.5.5 Profit and Loss account
 - 8.5.6 Balance sheet
- 8.6 Accounting of Non-Life Insurance companies
 - 8.6.1 Statement of Investment income
 - 8.6.2 Statement of expenses
 - 8.6.3 Statement of claims
 - 8.6.4 Statement of Premium
 - 8.6.5 Profit and Loss account
 - 8.6.6 Balance sheet

UNIT 9 ACCOUNTING FOR LEASES

- 9.1 Introduction and Definition of leases
- 9.2 Important terms of lease
- 9.3 Classification of lease
- 9.4 Criteria for identification of lease
- 9.5 Accounting for leases by lessee
- 9.6 Accounting for leases by lessor
- 9.7 Operating Lease
- 9.8 Sales and Lease Back

Recommended Books:

1. Accounting: The basis for business decision, by Meigs & Meigs (Latest Edition)
2. Advanced Accounting by M.A Ghani
3. Fundamental Accounting Principles by K.D. Larson (Latest Edition)
4. Advanced Accountancy by R. L. Gupta, Publisher, Sultan Chand & Sons 23, Daryaganj, New Delhi. Companies Ordinance 1984
5. International Financial Reporting Standards/IASs