

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

ADVANCED FINANCIAL ACCOUNTING (8553)

CHECKLIST

SEMESTER SPRING 2014

This packet comprises the following material:

1. Text Book (one)
2. Course Outline
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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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".**

ASSIGNMENT No. 1

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

Semester: Spring, 2014
Total Marks: 100
Pass Marks: 50

- Q. 1 Discuss the concept of understandability, relevance and reliability? Also explain the qualities that enhance these characteristics. **(10)**
- Q. 2 What is an Accounting Information System (AIS)? Explain. Also describe the four common operating cycles of business activity. **(10)**
- Q. 3 Facts-by-FAX sells facsimile machines, copiers, and other types of office equipment. On May 10, the company purchased for the first time a new plain-paper fax machine manufactured by Mitsui Corporation. Transactions relating to this product during May and June were as follows: **(15)**
- | | |
|---------|--|
| May 10 | Purchased five P-500 facsimile machines on account from Mitsui Corporation, at a cost of Rs.560 each. Terms of purchase are 3/15, EOM. |
| May 23 | Sold four P-500 facsimile machines on account to Foster & Cole, stockbrokers; sales price, Rs.900 per machine, granting the customers terms 2/10, n/30. |
| May 24 | Paid cash to Mitsui Corporation for the facsimile machines purchased on May 10 in full settlement of account. |
| June 9 | Purchased an additional seven P-500 facsimile machines on account from Mitsui. Cost, Rs.560 per machine with term FOB shipping point. Payment due in 30 days |
| June 19 | Facts-by-FAX paid Rs.100 to Express Shipping for delivery charges on the machines purchased on June 9. |
| June 22 | Amount collected from Foster & Cole in full settlement of the credit sale on May 23. |
- Required:** Prepare journal entries to record these transactions in the accounting records of Facts-by-FAX, assuming that the company uses a perpetual inventory system.
- Q. 4 Giant Foods accumulates large amounts of excess cash throughout the year. It typically invests these funds in marketable securities until they are needed. The company's most recent financial statements reported a Rs.594,000 unrealized loss on short-term investments. Footnotes to these financial statements disclosed that Giant classifies its short-term investments as available-for-sale securities. **(15)**

Required:

- i. Explain the meaning of Giant's unrealized loss on short-term investments.
- ii. How is the unrealized loss reported in Giant's financial statements?
- iii. Is the unrealized loss included in the computation of Giant's taxable income? Explain.
- iv. Evaluate the mark-to-market concept from the perspective of Giant's short-term creditors.

- Q. 5 Adil Corporation signed a lease agreement with Usman Corporation for leasing office equipment on 1st January, 2012 for 8 years. Adil Corporation is entitled to get Rs.11,928.26 annual rentals at the beginning of each year. Useful life of the machine was 10 years and interest rate implicit in the lease was 10%. Fair value of the Leased Assets was Rs.70,000. (20)

Required: In the books of Adil Corporation and Usman Corporation, you are required to:

- i. Prepare amortization schedule.
 - ii. Prepare journal entries for the first two years.
 - iii. Present the Balance Sheet Extracts as at December 31,2012
- Q. 6 Maria Martinez organized Manhattan Transport Company in January 1998. The corporation immediately issued at Rs. 8 per share one-half of its 200,000 authorized shares of Rs. 2 par value common stock. On January 2, 1999, the corporation sold at par value the entire 5,000 authorized shares of 8%, Rs.100 par value, cumulative preferred stock. On January 2, 2000, the company again needed money and issued 5,000 shares of an authorized 10,000 shares of no-par, cumulative preferred stock for a total of Rs.512,000. The no-par shares have a stated dividend of Rs.9 per share.

The company declared no dividends in 1998 and 1999. At the end of 1999, its retained earnings were Rs. 170,000. During 2000 and 2001 combined, the company earned a total of Rs. 890,000. Dividends of 50 cents per share in 2000 and Rs. 1.60 per share in 2001 were paid on the common stock.

Required: Prepare the stockholders' equity section of the balance sheet as on December 31, 2001. Include a supporting schedule showing your computation of retained earnings at the balance sheet date. (20)

- Q. 7 Prepare the statement of expenses for the Nizami General Insurance (NGI) for the year ended on December 31, 2012 from the given data. Amounts in Rupees. (10)

	Commission From Reinsurer	Deferred commission		Commission paid or payable	Other management expenses
		Opening	Closing		
Fire and property damage	8,260,828	3,189,117	2,757,323	5,632,347	2,316,316
Marine, aviation and transport	5,128,150	500,133	420,395	3,822,770	2,031,325
Motor	192,108	3,507,501	2,937,592	6,207,930	33,897,650
Accident and health	9,353,767	1,512,059	1,038,751	2,268,623	4,955,827
Miscellaneous	4,713,092	2,156,098	948,149	2,123,197	2,398,423

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

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-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 according to accounting standards.
- 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 (<i>Submission</i>)	100 Marks
Assignment 02 (<i>Presentation</i>)	100 Marks

ADVANCED FINANCIAL ACCOUNTING (8553)

UNIT 1 INTRODUCTION TO REGULATORY AND CONCEPTUAL FRAMEWORK OF ACCOUNTING AND ACCOUNTING POLICIES

- 1.1 Introduction
- 1.2 Important Bodies
 - 1.2.1 IFRS foundation
 - 1.2.2 IASB (International Accounting Standards Board)
 - 1.2.3 IFRS interpretation Committee
- 1.3 The Regulatory framework of Accounting
- 1.4 Principles based and rules based accounting
- 1.5 The Conceptual Framework of Accounting
- 1.6 Qualitative Characteristics of financial information
- 1.7 Elements of the financial statements
- 1.8 Recognition of assets, liabilities, income and expenses
- 1.9 Accounting policies, Changes in accounting estimates and errors
- 1.10 Measurement in financial statements

UNIT 2 ACCOUNTING INFORMATION SYSTEM: AN OVERVIEW

- 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 MERCHANDISING ACTIVITIES

- 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 FINANCIAL ASSETS

- 4.1 Cash control
 - 4.1.1 Cash management, Cash receipts and disbursements
 - 4.1.2 Reconciling the bank statements
 - 4.1.3 The impress petty cash system
- 4.2 Accounts receivable
 - 4.2.1 Uncollectible accounts, Write-off methods
 - 4.2.2 Management of accounts receivable,
 - 4.2.3 Evaluating the quality of accounts receivable
 - 4.2.4 Credit card sales, Credit risk
- 4.3 Short term investments

- 4.3.1 Purchases of marketable securities, Recognition of investment revenue
- 4.3.2 Adjusting marketable securities to market value
- 4.3.3 Reporting investment transaction

UNIT 5 CONSOLIDATED ACCOUNTS

- 5.1 Introduction:
 - 5.1.1 Types of investment:
 - 5.1.2 Meaning of group
- 5.2 Causes of operating as a group:
- 5.3 Key definitions IAS 27
- 5.4 Group Accounts:
 - 5.4.1 Objectives of consolidated accounts:
 - 5.4.2 Exception of preparation of consolidated accounts:
- 5.5 Principles of the consolidated statement of financial position
- 5.6 Various Treatments in Preparation of Financial Position
- 5.7 Consolidated Income Statement
 - 5.7.1 Pre- and post-acquisition profits
 - 5.7.2 NCI in the consolidated statement of comprehensive income
- 5.8 Other adjustments to the consolidated statement of comprehensive income
 - 5.8.1 Impairment of good will
 - 5.8.2 Intra – group transactions and their adjustments

UNIT 6 STOCK HOLDERS' EQUITY: PAID-IN CAPITAL, INCOME AND CHANGES IN RETAINED EARNINGS

- 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

UNIT 7 ACCOUNTS OF BANKING COMPANIES

- 7.1 Introduction:
 - 7.1.1 What are the Financial Statements?
 - 7.1.2 Purpose of Financial Statements
- 7.2 Users of Financial Statements
- 7.3 Applicable Laws and Rules for Financial Statements of Banking companies.
- 7.4 Basis of Preparation of financial Statements
 - 7.4.1 Basic Accounting Principles
- 7.5 Risk Associated with Banks
- 7.6 Preparation of Financial Statements
 - 7.6.1 Income Statement
 - 7.6.2 Balance Sheet
 - 7.6.3 Cash Flow Statement
 - 7.6.4 Disclosure Requirements

UNIT 8 ACCOUNTS OF INSURANCE COMPANIES

- 8.1 Introduction
 - 8.1.1 Definitions
 - 8.1.2 Insurance in Pakistan
- 8.2 Classes of Life and Non-Life Insurance
- 8.3 Accounts and Audit of Insurance Business
- 8.4 Kinds of Insurance
- 8.5 Accounting and Reporting
 - 8.5.1 In case of Life Insurance Company
 - 8.5.2 In case of Life Insurance Company
- 8.6 Preparation of the Various Statements for Life and 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 & Definitions:
 - 9.1.1 Scope of IAS 17
- 9.2 Important Terms of IAS 17
- 9.3 Classification of Leases
 - 9.3.1 Criteria of identification of type of lease
- 9.4 Guaranteed and un Guaranteed Residual Value
- 9.5 Bargain Purchase Option (BPO)
- 9.6 Accounting for Finance Leases by Lessee
- 9.7 Accounting for Finance Leases by Lessor
- 9.8 Accounting for Operating Lease
- 9.9 Accounting for Sales and Lease Back

Recommended Books:

Advanced Financial Accounting, Compiled by Department of Commerce, AIOU

Other study material:

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. Financial and Managerial Accounting by Williams, Haka, Bettner, Carcello
5. Advanced Accountancy by R. L. Gupta, Publisher, Sultan Chand & Sons 23, Daryaganj, New Delhi.
6. Companies Ordinance 1984
7. International Financial Reporting Standards /IASs

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