**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD**

**(Department of Commerce)**

**ADVANCED FINANCIAL ACCOUNTING (8553)**

**CHECKLIST**

**SEMESTER SPRING 2025**

This packet comprises the following material:

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

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

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# ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD

**(Department of Commerce)**

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**WARNING**

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM THE 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 THE “AIOU PLAGIARISM POLICY”.**

**Course: Advanced Financial Accounting (8553) Semester: Spring, 2025**

## **Level: M. Com**

## **Please read the following instructions for writing your assignments. (AD, BS, B. Ed, MA/MSc, MEd) (ODL Mode).**

1. All questions are compulsory and carry equal marks but within a question the marks are distributed according to its requirements.

2. Read the question carefully and then answer it according to the requirements of the questions.

3. Avoid irrelevant discussion/information and reproducing from books, study guide or allied material.

4. Handwritten scanned assignments are not acceptable.

5. Upload your typed (in Word or PDF format) assignments on or before the due date.

6. Your own analysis and synthesis will be appreciated.

7. Late assignments can’t be uploaded at LMS.

8. The students who attempt their assignments in Urdu/Arabic may upload a scanned copy of their handwritten assignments (in PDF format) on University LMS. The size of the file should not exceed 5MB.

**Total Marks: 100 Pass Marks: 50**

 **Pass MarkPass Marks: 5**

**ASSIGNMENT No. 1**

**Q. 1** Explain the qualitative characteristics of useful financial information as described in the IASB Conceptual Framework. How do these characteristics ensure the relevance and faithful representation of financial information? Support your answer with examples of how these characteristics are applied in preparing financial reports. **(20)**

**Q. 2** Describe the concept of an accounting information system (AIS). Discuss the challenges and risks associated with the implementation of an Accounting Information System. What strategies can be employed to mitigate these risks and ensure successful deployment? Use examples from case studies or industry practices to support your answer. **(20)**

**Q 3.** **a.** In wholesale and retail companies, inventory is composed of the items that have been purchased for resale. What types of inventory does a manufacturing firm have? Which inventory method (perpetual or periodic) provides better control over a firm’s inventory?

**b.** Pearcy Company reports the following activity during October related to its inventory of cameras:

Oct. 1 Beginning inventory consisted of 8 cameras costing $100 each.

 3 Purchased 12 cameras costing $110 each.

 14 Purchased 7 cameras costing $115 each.

20 Purchased 15 cameras costing $125 each.

29 Sold 26 cameras for $150 each.

The 26 cameras sold on October 29 consisted of the following: 4 cameras from the beginning inventory, 5 cameras purchased on October 3,3 cameras purchased on October 14, and 14 cameras purchased on October 20. Determine (1) the cost of goods sold for the month and (2) the ending inventory balance for October 31 using the specific ident identification cost flow assumption. **(20)**

**Q. 4 a.**What is meant by pledging accounts receivable when the enterprise needs funds instantly? Also, Describe the income statement approach and balance sheet approach for valuation of accounts receivable.

**b.** Three Stars Chemical Company has accumulated funds in its Depreciation Fund Account. These funds would be required for the replacement of machinery in a few years. Therefore, the company has decided to invest these funds in 12% Bonds that have a maturity of 5 years and were purchased at Rs. 1,000,000 as of 1 April 2020. The interest is payable semiannually.

**Required**

1. Record the purchase of Bonds in the books of accounts as of 1 April 2020.
2. Record accrued interest on Bonds in the books of accounts as of 30 June 2020.
3. Record the collection of interest on bonds as of 30 September 2020 and as of 31 March 2021. **(20)**

|  |
| --- |
| **Q.5 On** 1st January 2022, P bought 80% of S and paid Rs. 70,000 Cash. Following are the summarized Statements of Financial Position of P and S as of 31st December 2022. You are required to Prepare the consolidated Statement of Financial Position as of 31st December 2022. **(20)**  |
|  | **P** | **S** |  | **P** | **S** |
|  | **Rs** | **Rs** |  | **Rs** | **Rs** |
| Property, plant & equipment |  110,000  |  105,000  | Share Capital |  50,000  |  40,000  |
| Investment |  70,000  |  -  | Retained earnings |  189,000  |  69,000  |
|  |  ***180,000***  |  ***105,000***  |  |  ***239,000***  |  ***109,000***  |
| Stock |  35,000  |  18,000  |  |   |   |
| Debtors |  40,000  |  16,000  | 8% Loan notes |   |  20,000  |
| Cash |  5,000  |   | Current Liabilities |  21,000  |  10,000  |
|  |  ***80,000***  |  ***34,000***  |  |  ***21,000***  |  ***30,000***  |
|  |  |  |  |  |  |
|  |  **260,000**  |  **139,000**  |  |  **260,000**  |  **139,000**  |
| **Other information:** |  |  |  |  |  |
| **1)** The inventory of S includes Rs 10,000 of goods Purchased from P at cost Plus 25% |
| **2)** The P Group values the non-controlling interest using the fair value method.  At the date of acquisition, the fair value of the 20% non -controlling interest was Rs.46,000 |
| **3)** An Impairment loss of Rs 2,000 is to be charged against goodwill at the year's end. |  |
| **4)** S earned a profit of Rs 15,000 in the year ended 31st December 2022 |  |  |

**Total Marks: 100 Pass Marks: 50**

**ASSIGNMENT No. 2**

**Q.1** The stockholders' equity section of the Balance Sheet of Mahnoor Products Company appeared as under at the close of its third year of trading activities as on 30 June 2020:- **(20)**

|  |  |
| --- | --- |
| Common Stock 50,000 shares of Rs. 100 each authorized and issued 30,000 shares of Rs. 100 at Rs. 120 each. | Rs. 3,000,000 |
| 10% Preferred Stock 20,000 shares of Rs. 100 each authorized and issued 10,000 shares at Rs. 100 each | Rs. 1,000,000 |
| Premium on Common Stock | Rs. 600,000 |
| Retained Earnings | Rs. 600,000 |
| Total equity | Rs. 5,100,000 |

The following transactions were completed during 2020 -21:

1. Declared 10% Stock dividend on 15 July 2020 to the Common Stockholders and issued accordingly on 12 August 2020.
2. Declared cash dividend on 15 July 2020 to the Preferred Stockholders and paid it on 15 August 2020.
3. Issued 5,000 additional Common Shares on 18 August 2020 at a discount of 5% on payment.

 **Required**

1. Pass necessary accounting entries for the above transactions.
2. Stock split 2: 1 of Common Stocks was approved and completed on 30 August 2020.

**Q.2** The following data is obtained from the books of M.T.P General Insurance Company. All amounts are denoted in rupees. **(20)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Balance of inappropriate profit at the beginning of the year | 12,465,622 |  | Weighted average number of shares | 10,023,612 |
| Issuance of bonus shares: Re. 1 (10%) per share | 17,830,303 | Investment Income | 17,364,740 |
| Rental income | 233,520 | Other income | 1,756,170 |
| General and administration expenses | 43,350,457 | Profit on bank deposits | 1,229,000 |
| Share of profit in associated company | 1,624,157 | Provision for taxation | 4,495,719 |

**OTHER DATA**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Fire and****property damage****and transport** | **Marine,****aviation** | **Motor** | **Accident and****health** | **Miscellaneous** |
| Net premium revenue | 12,439,912 | 10,909,351 | 148,248,772 | 26,615,567 | 12,880,873 |
| Net claims | 4,602,679 | 4,615,760 | 78,466,331 | 17,983,550 | 3,617,286 |
| Expenses | 3,088,421 | 2,708,433 | 45,196,867 | 6,607,770 | 3,197,897 |
| Net commission | 2,928,914 | 1,634,189 | (8,780,976) | 8,815,781 | 1,842,596 |

**You are required to prepare the Profit and Loss Account for the year ended on December 31, 2021.**

**Q. 3** On January 1, 2021, M.I.N. Company Limited sold a warehouse to N.R.S leasing Company for Rs. 800,000 and simultaneously leased back for 5 years at an annual rental of Rs.198,150 payable at the beginning of each year. The book value of the asset at the inception of the lease was Rs. 700,000 and the remaining useful life of the assets is 10 years. The fair market value of the asset is Rs. 800,000. The interest rate implicit in the lease is 12%. **(20)**

**Required**

1. Identify the type of lease
2. Prepare the Amortization Schedule
3. Prepare the journal entries in the books of Lessee and Lessor.

**Q. 4** Explain the concept and accounting treatment of the following items in the financial statements of a banking company: **(20)**

1. Non-Performing Assets (NPA)
2. Provision for Doubtful Debts
3. Cash Reserve Ratio (CRR)
4. Statutory Liquidity Ratio (SLR)

Illustrate how these items affect the financial health and performance evaluation of a banking institution. Include relevant journal entries and examples where applicable.

**Q. 5** The income statements for Pinder Co. and Sadlar Co. for the year ended 31st December 2022 are shown below. Pinder Co. acquired 60% of the ordinary share capital of Sadlar Co. several years ago. **(20)**

|  |  |  |
| --- | --- | --- |
|  |  **P** |  **S** |
|  |  ***Rs '000'*** |  ***Rs '000'*** |
| Sales  |  3,000  |  1,500  |
| cost of sales and expenses |  (1,800) |  (900) |
| **Gross profit** |  **1,200**  |  **600**  |
| Distribution Cost |  (60) |  (35) |
| Admin cost |  (25) |  (20) |
| *Investment income:* |  |  |
| Dividend received from S |  5  |  |
| profit before tax |  **1,120**  |  **545**  |
| Tax |  (115) |  (15) |
| **Profit after tax** |  **1,005**  |  **530**  |

Goods were sold by P to S Rs 10,000 at a margin of 30% (all goods were unsold by S at the yearend)

**Required: Prepare Consolidated Income Statement for the year 2022.**