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Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	1413 Code
Course Name:	Financial Accounting
Class:	B.Com/AD
Total Credit Hours	3
Total Assignments	2

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

نوٹ: ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



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Assignment 1

Q.1 a. What is the purpose of financial accounting? Explain. Also, list down the primary and secondary users of accounting information and mention why the accounting information is required by them.

Purpose of Financial Accounting:

Financial accounting is a systematic process of recording, classifying, summarizing, and interpreting business transactions that can be measured in monetary terms. Its main purposes are:

1. **To provide financial information** about the business enterprise to various users for decision-making.
2. **To promote financial and administrative discipline** within the organization by maintaining proper records.
3. **To determine the periodic performance** (profit or loss) of the business through the Income Statement.
4. **To ascertain the financial position** (assets, liabilities, and equity) at a given date through the Balance Sheet.
5. **To ensure compliance** with legal requirements, accounting standards (IAS, IFRS), and generally accepted accounting principles (GAAP).
6. **To facilitate comparison** of financial results across different periods and with other similar enterprises.
7. **To assist management** in planning, controlling, and making strategic business decisions.

Users of Accounting Information and Their Needs:

Primary Users (Internal Users):

- **Top Management** – Uses accounting information for strategic planning, setting policies, evaluating overall performance, and making investment decisions.
- **Middle Management** – Uses information for departmental budgeting, cost control, and operational efficiency.
- **Lower Management / Supervisors** – Uses information for day-to-day operations, monitoring expenses, and meeting targets.
- **Employees and Trade Unions** – Use financial data to negotiate wages, bonuses, and other benefits based on the company's profitability and stability.
- **Internal Auditors** – Use accounting records to verify accuracy, detect fraud, and ensure internal controls are effective.



Secondary Users (External Users):

- **Shareholders (Owners)** – Require information to assess the return on their investment, future dividend prospects, and the safety of their capital.
- **Creditors and Lenders** – Need to know the company's liquidity and ability to repay loans and interest on time.
- **Suppliers** – Use accounting information to decide whether to grant credit terms and the credit limit.
- **Customers** – Interested in the company's long-term viability to ensure continued supply of products or services.
- **Taxation Authorities** – Require financial information to compute accurate income tax, sales tax, and other levies.
- **Securities and Exchange Commission (SECP)** and Stock Exchanges – Monitor compliance with regulations and ensure fair disclosure to protect investors.
- **Financial Analysts and Brokers** – Analyze financial statements to advise investors on buying, holding, or selling shares.
- **Regulatory Agencies** – Use accounting data to enforce laws, ensure fair competition, and protect public interest.

Thus, accounting serves as the "language of business" by communicating essential financial information to all stakeholders.

Q.1 b. Identify how each of the following separate transactions affects financial statements. For the balance sheet, identify how each transaction affects total assets, total liabilities, and total equity. For the income statement, identify how each transaction affects net income. For the statement of cash flows, identify how each transaction affects cash flows from operating activities, cash flows from financing activities, and cash flows from investing activities. For increases, place a "+" in the column or columns. For decreases, place a "-" in the column or columns. If both an increase and a decrease occur, place "+/-" in the column or columns. The first transaction is completed as an example.



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Transaction	Balance Sheet			Income Statement	Statement of Cash Flows		
	Total Assets	Total Liab.	Total Equity	Net Income	Operating Activities	Financing Activities	Investing Activities
1 Owner invests cash in business	+	+	+			+	
2 Buys building by signing note payable	+	+					
3 Pays cash for salaries incurred	-		-	-	-		
4 Provides services for cash	+		+	+	+		
5 Pays cash for rent incurred	-		-	-	-		
6 Incurs utilities costs on credit		+	-	-			
7 Buys store equipment for cash	+/-						-
8 Owner withdraws cash	-		-			-	
9 Provides services on credit	+		+	+			
10 Collects cash on receivable from (9)	+/-				+		

Explanation of each transaction:

- **Transaction 2:** Buying building by signing a note payable increases assets (building) and increases liabilities (notes payable). No effect on net income or cash flows at this point.
- **Transaction 3:** Paying cash for salaries reduces assets (cash), reduces equity (expense reduces net income), and reduces net income (salary expense). Cash outflow from operating activities.



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- **Transaction 4:** Providing services for cash increases assets (cash), increases equity (revenue increases net income), increases net income, and cash inflow from operating activities.
- **Transaction 5:** Paying cash for rent reduces assets, reduces equity (expense), reduces net income, and cash outflow from operating activities.
- **Transaction 6:** Incurring utilities costs on credit increases liabilities (accounts payable) and reduces equity (expense reduces net income). No cash effect.
- **Transaction 7:** Buying store equipment for cash: one asset (equipment) increases, another asset (cash) decreases – net effect on total assets is zero. No effect on net income. Cash outflow from investing activities.
- **Transaction 8:** Owner withdraws cash reduces assets (cash) and reduces equity (drawings). Cash outflow from financing activities.
- **Transaction 9:** Providing services on credit increases assets (accounts receivable) and increases equity (revenue increases net income). No cash effect.
- **Transaction 10:** Collecting cash on receivable: cash increases, accounts receivable decreases – net effect on total assets is zero. No effect on net income. Cash inflow from operating activities.



Q.2. Gary Bauer opens a computer consulting business called Technology Consultants and completes the following transactions in April.

Transactions on April:

1. Bauer invested 100,000 cash, along with 100,000 cash, along with 24,000 in office equipment in the company.
2. The company prepaid 7,200 cash for twelve months' rent for an office. (Debit Prepaid Rent for 7,200 cash for twelve months' rent for an office. (Debit Prepaid Rent for 7,200)
3. The company made credit purchases of office equipment for 12,000 and office supplies for 2,400. Payment is due within 10 days.
4. The company completed services for a client and immediately received \$2,000 cash.
5. The company completed an \$8,000 project for a client, who must pay within 30 days.
6. The company paid \$14,400 cash to settle the accounts payable created on April 3.
7. The company paid 6,000 cash for the premium on a 12-month insurance policy. (Debit Prepaid Insurance for 6,000 cash for the premium on a 12-month insurance policy. (Debit Prepaid Insurance for 6,000)
8. The company received \$6,400 cash as partial payment for the work completed on April 9.
9. The company completed work for another client for \$2,640 on credit.



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10. Bauer withdrew \$6,200 cash from the company for personal use.
11. The company purchased \$800 of additional office supplies on credit.
12. The company paid \$700 cash for this month's utility bill.

Required:

1. General Journal Entries

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
April 1	Cash	100,000	
	Office Equipment	24,000	
	G. Bauer, Capital		124,000
	(Owner invested cash and equipment)		
April 2	Prepaid Rent	7,200	
	Cash		7,200
	(Prepaid 12 months rent)		
April 3	Office Equipment	12,000	
	Office Supplies	2,400	
	Accounts Payable		14,400
	(Credit purchases)		
April 6	Cash	2,000	
	Services Revenue		2,000
	(Services performed for cash)		
April 9	Accounts Receivable	8,000	
	Services Revenue		8,000
	(Services performed on credit)		
April 13	Accounts Payable	14,400	
	Cash		14,400
	(Paid accounts payable)		
April 19	Prepaid Insurance	6,000	
	Cash		6,000
	(Paid insurance premium)		
April 22	Cash	6,400	
	Accounts Receivable		6,400
	(Collected partial payment)		
April 25	Accounts Receivable	2,640	



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	Services Revenue		2,640
	(Services performed on credit)		
April 28	G. Bauer, Withdrawals	6,200	
	Cash		6,200
	(Owner withdrew cash)		
April 29	Office Supplies	800	
	Accounts Payable		800
	(Purchased supplies on credit)		
April 30	Utilities Expense	700	
	Cash		700
	(Paid utility bill)		

2. Ledger Accounts (Balance Column Format)

Cash (101)

Date	Explanation	Debit	Credit	Balance
April 1	Owner investment	100,000		100,000
April 2	Prepaid rent		7,200	92,800
April 6	Services revenue	2,000		94,800
April 13	Accounts payable		14,400	80,400
April 19	Prepaid insurance		6,000	74,400
April 22	Accounts receivable	6,400		80,800
April 28	Withdrawals		6,200	74,600
April 30	Utilities expense		700	73,900

Accounts Receivable (106)

Date	Explanation	Debit	Credit	Balance
April 9	Services revenue	8,000		8,000
April 22	Cash collected		6,400	1,600
April 25	Services revenue	2,640		4,240

Office Supplies (124)

Date	Explanation	Debit	Credit	Balance
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April 3	Accounts payable	2,400		2,400
April 29	Accounts payable	800		3,200

Prepaid Insurance (128)

Date	Explanation	Debit	Credit	Balance
April 19	Cash	6,000		6,000

Prepaid Rent (131)

Date	Explanation	Debit	Credit	Balance
April 2	Cash	7,200		7,200

Office Equipment (163)

Date	Explanation	Debit	Credit	Balance
April 1	Owner investment	24,000		24,000
April 3	Accounts payable	12,000		36,000

Accounts Payable (201)

Date	Explanation	Debit	Credit	Balance
April 3	Purchases		14,400	14,400
April 13	Cash paid	14,400		0
April 29	Supplies purchase		800	800

G. Bauer, Capital (301)

Date	Explanation	Debit	Credit	Balance
April 1	Investment		124,000	124,000

G. Bauer, Withdrawals (302)

Date	Explanation	Debit	Credit	Balance
April 28	Cash	6,200		6,200



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Services Revenue (403)

Date	Explanation	Debit	Credit	Balance
April 6	Cash		2,000	2,000
April 9	Accounts receivable		8,000	10,000
April 25	Accounts receivable		2,640	12,640

Utilities Expense (690)

Date	Explanation	Debit	Credit	Balance
April 30	Cash	700		700

3. Trial Balance as of April 30

Account Title	Debit (\$)	Credit (\$)
Cash	73,900	
Accounts Receivable	4,240	
Office Supplies	3,200	
Prepaid Insurance	6,000	
Prepaid Rent	7,200	
Office Equipment	36,000	
Accounts Payable		800
G. Bauer, Capital		124,000
G. Bauer, Withdrawals	6,200	
Services Revenue		12,640
Utilities Expense	700	
Total	137,440	137,440

Q.3. Devise a coding scheme using block and sequential codes for the following chart of accounts for Digital Camera distributors.

Explanation of Block and Sequential Coding:



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Block coding assigns a range of numbers to each major category of accounts. Sequential codes are then assigned within each block for individual accounts. A typical coding scheme for a trading/distribution company uses 3 or 4 digits. The first digit represents the major category:

- **1xxx** – Assets
- **2xxx** – Liabilities
- **3xxx** – Equity
- **4xxx** – Revenues
- **5xxx** – Cost of Goods Sold
- **6xxx** – Expenses
- **7xxx** – Other Income/Gains
- **8xxx** – Other Expenses/Losses

A more detailed block scheme for the given accounts:

Block Range	Category
1000–1999	Current Assets
2000–2999	Fixed Assets
3000–3999	Current Liabilities
4000–4999	Long-Term Liabilities
5000–5999	Equity
6000–6999	Revenue
7000–7999	Cost of Goods Sold
8000–8999	Operating Expenses
9000–9999	Other Expenses

Applied Coding Scheme:

Account Title	Code
Assets (1000–2999)	
Cash	1010
Accounts Receivable	1020
Office Supplies Inventory	1030
Prepaid Insurance	1040
Inventory	1050
Marketable Securities	1060
Delivery Van	1510



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Accumulated Depreciation – Delivery Van	1511
Plant	1520
Accumulated Depreciation – Plant	1521
Furniture and Fixtures	1530
Accumulated Depreciation – Furniture & Fixtures	1531
Building	1540
Accumulated Depreciation – Building	1541
Land	1550
Liabilities (3000–4999)	
Accounts Payable	3010
Wages Payable	3020
Taxes Payable	3030
Notes Payable	4010
Bonds Payable	4020
Equity (5000–5999)	
Common Shares	5010
Share Premium	5020
Retained Earnings	5030
Revenues (6000–6999)	
Sales	6010
Sales Returns	6020 (contra revenue)
Dividend Income	6030
Cost of Goods Sold (7000–7999)	
Cost of Goods Sold	7010
Expenses (8000–8999)	
Wages Expense	8010
Utility Expense	8020
Supplies Expense	8030
Insurance Expense	8040
Depreciation Expense	8050
Advertising Expense	8060
Fuel Expense	8070
Interest Expense	8080



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Note: Sequential codes within each block allow for future additions. For example, between 1010 and 1020, accounts like 1015 (Petty Cash) can be added. This block and sequential coding facilitates computerized accounting and financial statement preparation.

Q.4 a. Describe the procedure adopted for valuation and presentation of short-term equity securities in the financial statements at year-end under mark to market concept.

Mark to Market Concept for Short-Term Equity Securities:

Under the mark to market concept (also known as fair value accounting), short-term equity securities (such as shares of other companies held for trading purposes) are valued at their market price on the balance sheet date, rather than their historical cost. This is a departure from the cost principle of GAAP and is required by International Financial Reporting Standards (IFRS) for certain categories of investments.

Procedure for Valuation and Presentation:

- Initial Recognition:** When short-term equity securities are purchased, they are recorded at cost, including any brokerage fees, commissions, or other incidental expenses. The journal entry is:
 - Debit: Investment in Marketable Securities (at cost)
 - Credit: Cash/Bank
- Valuation at Year-End:** On the balance sheet date (e.g., June 30), the market value of each security is determined from stock exchange quotations. Any difference between the cost and the market value is recognized as an unrealized gain or loss.
- Treatment of Unrealized Gains/Losses:** Under IFRS, for trading securities (held for short-term profit), unrealized gains and losses are recognized in the income statement. For available-for-sale securities (where the intent is not to sell immediately), unrealized gains/losses are reported in other comprehensive income (equity section) until realized. However, for many short-term equity securities, the unrealized gain or loss is shown as a separate component of equity (e.g., "Unrealized Gain on Marketable Securities") and not in the income statement until realized.
- Adjusting Entry:** The adjustment is recorded to bring the carrying value to market price.
 - If market value > cost:
 - Debit: Investment in Marketable Securities (for the increase)
 - Credit: Unrealized Gain on Marketable Securities (equity account)
 - If market value < cost:



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- Debit: Unrealized Loss on Marketable Securities (equity account)
- Credit: Investment in Marketable Securities (for the decrease)

5. Presentation in Financial Statements:

- **Balance Sheet:** Short-term equity securities are shown as current assets under the heading "Marketable Securities" or "Short-term Investments" at their fair market value. The cost may also be disclosed in parentheses or notes. The unrealized gain/loss appears in the equity section (if not recognized in income).
 - **Income Statement:** When the securities are sold, the realized gain or loss (difference between selling price and original cost) is recognized in the income statement. The previously recorded unrealized gain/loss is reversed and transferred to realized gain/loss.
6. **Disclosure:** Notes to the financial statements should disclose the cost, market value, and any unrealized gain or loss, as well as the classification of the securities (trading or available-for-sale).

Example: A company purchases 1,000 shares at Rs. 150 each (cost Rs. 150,000). At year-end, market price is Rs. 170 each (value Rs. 170,000). The adjustment is:

- Debit Investment in Marketable Securities Rs. 20,000
- Credit Unrealized Gain on Marketable Securities Rs. 20,000

The balance sheet shows marketable securities at Rs. 170,000 and equity includes Rs. 20,000 as unrealized gain.

This mark to market concept ensures that financial statements reflect the true economic value of investments and provide relevant information to users.

Q.4 b. The following data were associated with the accounts receivable and uncollectible accounts of Sundas, Inc., during 2025:

- i. The opening credit balance in Allowance for Bad Debts was Rs. 600,000 at January 1, 2025.
- ii. During 2025, the company realized that specific accounts receivable totaling Rs. 630,000 had gone bad and had been written off.
- iii. An account receivable of Rs. 35,000 was collected during 2025. This account had previously been written off as a bad debt in 2024.
- iv. The company decided that Allowance for Bad Debts would be Rs. 650,000 at the end of 2025.

Required:

1. Journal entries using the allowance method:



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(a) To write off specific accounts receivable as uncollectible:

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
During 2025	Allowance for Bad Debts	630,000	
	Accounts Receivable		630,000
	(To write off accounts determined to be uncollectible)		

(b) To reinstate an account previously written off (collection of Rs. 35,000):

First, reinstate the receivable:

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
During 2025	Accounts Receivable	35,000	
	Allowance for Bad Debts		35,000
	(To reinstate account previously written off)		

Then, record the collection:

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
During 2025	Cash	35,000	
	Accounts Receivable		35,000
	(To record collection of receivable)		

(c) To adjust the allowance to the desired ending balance (Rs. 650,000):

First, compute the balance in Allowance for Bad Debts before adjustment:

- Opening balance (credit): Rs. 600,000
- Less: Write-offs during the year: (Rs. 630,000)
- Add: Reinstatement of previously written off account: Rs. 35,000
- Balance before adjustment: Rs. 600,000 – 630,000 + 35,000 = Rs. 5,000 (credit)

Desired ending balance: Rs. 650,000 (credit)

Required adjustment (increase): Rs. 650,000 – Rs. 5,000 = Rs. 645,000

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
Dec 31, 2025	Bad Debts Expense	645,000	
	Allowance for Bad Debts		645,000
	(To adjust allowance to desired balance)		



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2. Advantages of the allowance method over the direct write-off method with respect to the matching principle:

The matching principle requires that expenses be recorded in the same accounting period as the revenues they helped generate. When sales are made on credit, the possibility of bad debts is a necessary cost of generating those sales revenues.

Advantages of the allowance method:

- **Proper matching of expenses with revenues:** The allowance method estimates bad debt expense in the same period when the related credit sales occur. This ensures that the expense is matched against the revenue, providing a more accurate net income for the period. In contrast, the direct write-off method records bad debt expense only when a specific account is determined to be uncollectible, which may be in a later accounting period, thereby mismatching revenues and expenses.
- **Compliance with accrual accounting:** The allowance method follows the accrual basis of accounting, which is required by GAAP and IFRS for most businesses. The direct write-off method is a departure from the matching principle and is only acceptable for small, immaterial amounts.
- **Better representation of asset values:** The allowance method reports accounts receivable on the balance sheet at their net realizable value (gross receivables minus estimated allowance). This gives users a more realistic view of the cash expected to be collected. The direct write-off method overstates receivables until they are actually written off.
- **Smoothing of income effects:** By estimating bad debts each period, the allowance method avoids large, irregular charges to income that occur under the direct write-off method when a major customer defaults. This results in more consistent and predictable net income figures.

Thus, the allowance method is preferred for its adherence to the matching principle and for providing more relevant and reliable financial information.

Q.5. Prepare adjusting journal entries for the year ended December 31, 2025, for each of these separate situations. Assume that prepaid expenses are initially recorded in asset accounts. Also assume that fees collected in advance of work are initially recorded as liabilities.

(a) Depreciation on the company's equipment for 2025 is computed to be \$16,000.

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
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Dec 31, 2025	Depreciation Expense	16,000	
	Accumulated Depreciation – Equipment		16,000
	(To record depreciation for the year)		

(b) The Prepaid Insurance account had a 7,000 debit balance at December 31, 2025, before adjusting for the costs of any expired coverage. An analysis of the company's insurance policies showed that 7,000 debit balance at December 31, 2025, before adjusting for the costs of any expired coverage. An analysis of the company's insurance policies showed that 1,040 of unexpired insurance coverage remains.

$$\text{Expired insurance} = 7,000 - 7,000 - 1,040 = \$5,960$$

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
Dec 31, 2025	Insurance Expense	5,960	
	Prepaid Insurance		5,960
	(To record expired insurance)		

(c) The Office Supplies account had a 300 debit balance on December 31, 2024, and 300 debit balance on December 31, 2024, and 2,680 of office supplies were purchased during the year. The December 31, 2025, physical count showed \$354 of supplies available.

Supplies available at beginning of year: 300
 Add: Purchases during year: 300
 Total supplies available: 2,980
 Less: Physical count on hand: 354
 Supplies used (expense): \$2,626

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
Dec 31, 2025	Supplies Expense	2,626	
	Office Supplies		2,626
	(To record supplies consumed)		

(d) One-half of the work related to \$10,000 of cash received in advance was performed this period.

$$\text{Revenue earned} = 10,000 \times 1/2 = 10,000 \times 1/2 = 5,000$$

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
Dec 31, 2025	Unearned Revenue (or Fees Collected in Advance)	5,000	



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	Service Revenue (or Fees Earned)		5,000
	(To record revenue earned from advance collection)		

(e) The Prepaid Insurance account had a 5,600 debit balance on December 31, 2025, before adjusting for the costs of any expired coverage. An analysis of insurance policies showed that 5,600 debit balance on December 31, 2025, before adjusting for the costs of any expired coverage. An analysis of insurance policies showed that 4,600 of coverage had expired.

Expired insurance = \$4,600

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
Dec 31, 2025	Insurance Expense	4,600	
	Prepaid Insurance		4,600
	(To record expired insurance)		

(f) Wage expenses of \$4,000 have been incurred but are not paid as of December 31, 2025.

Date	Account Titles and Explanation	Debit (\$)	Credit (\$)
Dec 31, 2025	Wages Expense	4,000	
	Wages Payable		4,000
	(To accrue unpaid wages)		



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