

ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD

(Department of Commerce)

SOLVED ASSIGNMENT NO. 1

Course Title:	Financial Accounting	Course Code:	1413
Level:	AD / B. Com	Semester:	Autumn 2026
Total Marks:	100	Pass Marks:	AD: 50 / BA: 40

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Question 1 (20 Marks)

a. Describe Financial Accounting and narrate the rules of Debit and Credit for the classified accounts to record transactions in the books of accounts.

b. The following table shows the effects of five transactions (a through e) on the assets, liabilities, and equity of Vera's Boutique. Write short descriptions of the probable nature of each transaction:

Initial: Cash \$10,500 + A/R \$0 + Supplies \$1,500 + Land \$9,500 = A/P \$0 + Capital \$21,500 + Revenues \$0

a. Cash -\$2,000, Land +\$2,000

b. Office Supplies +\$500, Accounts Payable +\$500

c. Accounts Receivable +\$950, Revenues +\$950

d. Cash -\$500, Accounts Payable -\$500

e. Cash +\$950, Accounts Receivable -\$950

Answer

Part (a): Financial Accounting & Rules of Debit and Credit

Financial Accounting is a specialized branch of accounting focused on the systematic recording, summarizing, analyzing, and reporting of a business organization's financial transactions. Its primary purpose is to provide standardized, accurate, and reliable financial information - through the Financial Statements (Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity) - to external stakeholders such as investors, creditors, regulators, tax authorities, and financial analysts in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP).

In modern double-entry bookkeeping, accounts are classified into five major categories under the ALERE framework. The rules of Debit (Dr.) and Credit (Cr.) govern how increases and decreases are recorded in each account type:

Account Classification	Normal Balance	Debit (Dr.) Action	Credit (Cr.) Action
Assets (Cash, A/R, Inventory, Land)	Debit	Increase (+)	Decrease (-)
Liabilities (A/P, Loans, Notes Payable)	Credit	Decrease (-)	Increase (+)
Equity / Capital (Owner's Equity)	Credit	Decrease (-)	Increase (+)
Revenues / Income (Sales, Fees)	Credit	Decrease (-)	Increase (+)
Expenses / Drawings (Rent, Salaries)	Debit	Increase (+)	Decrease (-)

Part (b): Probable Nature of Vera's Boutique Transactions

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Below is the analysis and probable description of each transaction based on the accounting equation (Assets = Liabilities + Equity):

- **Transaction (a) [Cash -\$2,000 | Land +\$2,000]:** Purchased land for \$2,000 cash. This is an asset-exchange transaction that reallocates \$2,000 from liquid cash into real estate land without affecting total assets, liabilities, or equity.

- **Transaction (b) [Office Supplies +\$500 | Accounts Payable +\$500]:** Purchased office supplies worth \$500 on credit (on account). This increases total assets (Office Supplies) by \$500 and simultaneously increases liabilities (Accounts Payable) by \$500.

- **Transaction (c) [Accounts Receivable +\$950 | Revenues +\$950]:** Provided boutique services or delivered goods to a customer on credit (on account) for \$950. This increases assets (Accounts Receivable) by \$950 and increases equity via Services Revenue by \$950.

- **Transaction (d) [Cash -\$500 | Accounts Payable -\$500]:** Paid \$500 cash to settle an outstanding balance owed to a creditor. This decreases liquid assets (Cash) by \$500 and reduces liabilities (Accounts Payable) by \$500.

- **Transaction (e) [Cash +\$950 | Accounts Receivable -\$950]:** Collected \$950 cash from a credit customer in full settlement of their accounts receivable balance. This increases Cash by \$950 and decreases Accounts Receivable by \$950, leaving total assets unchanged.

Question 2 (20 Marks)

Shaw Management Services completes transactions in November 2024:

Nov 1: Kita Shaw invested \$30,000 cash and \$15,000 office equipment.

Nov 2: Prepaid \$4,500 cash for 6 months' rent.

Nov 4: Purchased office equipment \$2,500 and office supplies \$600 on credit.

Nov 8: Completed work for client, received \$3,400 cash.

Nov 12: Completed \$10,200 project for client on credit.

Nov 13: Paid \$3,100 cash to settle payable of Nov 4.

Nov 19: Paid \$1,800 cash for 24-month insurance policy.

Nov 22: Received \$5,200 cash as partial payment for Nov 12 work.

Nov 24: Completed work for client for \$1,750 on credit.

Nov 28: K. Shaw withdrew \$5,300 cash for personal use.

Nov 29: Purchased \$249 office supplies on credit.

Nov 30: Paid \$531 cash for utility bill.

Required: 1. General Journal Entries | 2. General Ledger Accounts | 3. Trial Balance at Nov 30.

Answer

Requirement 1: General Journal Entries

Date (Nov)	Account Titles and Explanation	Ref	Debit (\$)	Credit (\$)
Nov 1	Cash Office Equipment To K. Shaw, Capital (Owner invested cash & e	101 163 301	30,000 15,000 -	- - 45,000
Nov 2	Prepaid Rent To Cash (Prepaid 6 months' office rent)	131 101	4,500 -	- 4,500
Nov 4	Office Equipment Office Supplies To Accounts Payable (Purchased e	163 124 201	2,500 600 -	- - 3,100
Nov 8	Cash To Services Revenue (Completed work and received cash)	101 403	3,400 -	- 3,400
Nov 12	Accounts Receivable To Services Revenue (Completed project on cre	106 403	10,200 -	- 10,200
Nov 13	Accounts Payable To Cash (Paid payable created on Nov 4)	201 101	3,100 -	- 3,100
Nov 19	Prepaid Insurance To Cash (Paid 24-month insurance premium)	128 101	1,800 -	- 1,800
Nov 22	Cash To Accounts Receivable (Collected partial payment on account)	101 106	5,200 -	- 5,200
Nov 24	Accounts Receivable To Services Revenue (Completed work on credi	106 403	1,750 -	- 1,750
Nov 28	K. Shaw, Withdrawals To Cash (Owner cash withdrawal for personal u	302 101	5,300 -	- 5,300
Nov 29	Office Supplies To Accounts Payable (Purchased supplies on credit)	124 201	249 -	- 249

Nov 30	Utilities Expense To Cash (Paid monthly utility bill)	690 101	531 -	- 531
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Requirement 2: General Ledger Accounts (Running Balance Format)

Cash (Account No. 101):

Date	Explanation	Ref	Debit (\$)	Credit (\$)	Balance (\$)
Nov 1	Owner Investment	G1	30,000	-	30,000 Dr
Nov 2	Prepaid Rent	G1	-	4,500	25,500 Dr
Nov 8	Services Revenue	G1	3,400	-	28,900 Dr
Nov 13	Paid Accounts Payable	G1	-	3,100	25,800 Dr
Nov 19	Prepaid Insurance	G1	-	1,800	24,000 Dr
Nov 22	Collection on A/R	G1	5,200	-	29,200 Dr
Nov 28	Owner Withdrawal	G1	-	5,300	23,900 Dr
Nov 30	Utilities Expense	G1	-	531	23,369 Dr

Accounts Receivable (Account No. 106):

Date	Explanation	Ref	Debit (\$)	Credit (\$)	Balance (\$)
Nov 12	Services Revenue	G1	10,200	-	10,200 Dr
Nov 22	Cash Collection	G1	-	5,200	5,000 Dr
Nov 24	Services Revenue	G1	1,750	-	6,750 Dr

General Ledger Summary Balances at November 30:

Account Name	Acct No.	Total Debits (\$)	Total Credits (\$)	Ending Balance (\$)
Office Supplies	124	849	0	849 Dr
Prepaid Insurance	128	1,800	0	1,800 Dr
Prepaid Rent	131	4,500	0	4,500 Dr
Office Equipment	163	17,500	0	17,500 Dr
Accounts Payable	201	3,100	3,349	249 Cr
K. Shaw, Capital	301	0	45,000	45,000 Cr
K. Shaw, Withdrawals	302	5,300	0	5,300 Dr
Services Revenue	403	0	15,350	15,350 Cr
Utilities Expense	690	531	0	531 Dr

Requirement 3: Trial Balance as of November 30, 2024

Acct No.	Account Title	Debit (\$)	Credit (\$)
101	Cash	23,369	-
106	Accounts Receivable	6,750	-
124	Office Supplies	849	-
128	Prepaid Insurance	1,800	-
131	Prepaid Rent	4,500	-
163	Office Equipment	17,500	-
201	Accounts Payable	-	249
301	K. Shaw, Capital	-	45,000
302	K. Shaw, Withdrawals	5,300	-
403	Services Revenue	-	15,350
690	Utilities Expense	531	-
TOTALS	TRIAL BALANCE TOTALS	60,599	60,599

Question 3 (20 Marks)

- a. Identify an advantage of an integrated computer-based accounting system.**
- b. Why is documentation important to accounting information systems? Why should accountants be interested in AIS documentation? Also Distinguish between document flowcharts, system flowcharts, data flow diagrams, and program flowcharts. How are they similar? How are they different?**

Answer

Part (a): Advantages of an Integrated Computer-Based Accounting System

An Integrated Computer-Based Accounting System (Enterprise Resource Planning - ERP) seamlessly links all transactional sub-modules - General Ledger, Accounts Payable, Accounts Receivable, Payroll, Inventory Management, and Fixed Assets - into a unified central database.

- Real-Time Data Processing & Immediate Posting: A primary advantage is that transactions entered in any sub-module automatically update the General Ledger and financial statements instantly. For instance, recording a sales invoice automatically updates Accounts Receivable, reduces Inventory balances, records Cost of Goods Sold, and logs Sales Revenue without requiring manual re-entry or double posting.

- Reduction of Data Redundancy & Human Error: Eliminates clerical data duplication and transcription mistakes, drastically speeding up financial month-end closing procedures and increasing financial reporting accuracy.

Part (b): AIS Documentation & Flowchart Classification

Importance of AIS Documentation:

- System Understanding & Training: Provides standard operating procedures (SOPs) for training accountants, clerks, and internal auditors on system operations.

- Internal Control Evaluation & Compliance: Allows internal and external auditors to trace audit trails, evaluate segregation of duties, and identify control deficiencies or security risks under Sarbanes-Oxley (SOX) or IFRS guidelines.

- System Maintenance & Troubleshooting: Enables IT specialists and financial managers to modify software algorithms, fix bugs, and upgrade processes without disrupting business operations.

Comparative Matrix of AIS Diagrams:

Diagram Type	Primary Focus	Key Symbols / Elements	Primary User Audience
Flowchart	Documents (invoices, checks) through organizational units	Physical transfer arrows, storage tanks	Internal/External Auditors, Compliance Officers
System Flowchart	System input, processing, storage, and output interactions	Computer processing, storage, input/output	System Analysts, IT Management, Accounting Managers
Data Flow Diagram (DFD)	Flow of data within a system	Processes (circles), Data Stores (open rectangles), External Systems	System Designers, Database Administrators
Program Flowchart	Logical and mathematical steps within a specific program	Decision diamonds, processing rectangles, start/end symbols	Software Engineers, Computer Programmers

Question 4 (20 Marks)

Prepare adjusting journal entries required for financial statements for the year ended December 31, 2025:

- One-third of work related to Rs. 30,000 cash received in advance is performed.
- Wages of Rs. 9,000 are earned by workers but not paid as of Dec 31, 2025.
- Depreciation on equipment for the year is Rs. 19,127.
- Office Supplies balance was Rs. 480 on Dec 31, 2024. Purchased Rs. 5,349 during 2025. Physical count at Dec 31, 2025 shows Rs. 587 available.
- Prepaid Insurance balance was Rs. 5,000 on Dec 31, 2024. Analysis shows Rs. 2,200 unexpired at Dec 31, 2025.
- Earned Rs. 750 unrecorded interest on CDs for 2025 (receivable Jan 10, 2026).
- Accrued interest expense of Rs. 3,500 on bank loan (payable Jan 2, 2026).

Answer

Adjusting Journal Entries (For Year Ended December 31, 2025)

Case	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
a. Unearned Service Revenue	Revenue To Service Revenue (Recorded 1/3 of Rs. 30,000 advance fees earned)	10,000 -	- 10,000
b. Wages Expense	To Wages Payable (To record accrued unpaid wages at year-end)	9,000 -	- 9,000
c. Equipment	To Accumulated Depreciation - Equipment (To record annual depreciation on equipment)	19,127 -	- 19,127

d. Office Supplies Expense	To Office Supplies (Supplies used = 480 + 5,349 - 587 = Rs. 5,242)	5,242 -	- 5,242
e. Insurance Expense	To Prepaid Insurance (Expired insurance = 5,000 - 2,200 = Rs. 2,800)	2,800 -	- 2,800
f. Interest Receivable	To Interest Revenue (To record accrued unrecorded interest on CDs)	750 -	- 750
g. Interest Expense	To Interest Payable (To record accrued interest expense on bank loan)	3,500 -	- 3,500

Question 5 (20 Marks)

a. Reliance Traders has accounts receivables of Rs. 15,500 million. Evaluates two financing options:

Option A: Factoring 80% of receivables at a factoring fee of 6% to an agency.

Option B: Pledging 80% of receivables at flat interest of 7% with a bank for loan.

b. Subhan Trading Corporation invested in marketable securities:

1. Purchased 1,500 shares of Kohinoor Mills Ltd @ Rs. 250 par Rs. 100 on Sept 28, 2024. Market value @ June 30, 2025 is Rs. 300.

2. Acquired 2,000 shares of Saif Group Ltd @ Rs. 85 par Rs. 50 on March 15, 2025. Market value @ June 30, 2025 is Rs. 100.

Required: Record purchases, fair value adjustments, and present mark-to-market financial statement disclosure.

Answer**Part (a): Financial Evaluation of Factoring vs. Pledging**

Total Accounts Receivable = Rs. 15,500 Million. Financed Base (80%) = Rs. 12,400 Million.

- **Option A (Factoring Receivables):** Amount Factored = 80% x Rs. 15,500M = Rs. 12,400M. Factoring Fee (6%) = 6% x Rs. 12,400M = Rs. 744 Million. Net Cash Received = Rs. 12,400M - Rs. 744M = Rs. 11,656 Million. In factoring, credit risk and collection burden are transferred to the factor (without recourse).

- **Option B (Pledging Receivables):** Loan Amount Advanced = 80% x Rs. 15,500M = Rs. 12,400M. Interest Expense (7%) = 7% x Rs. 12,400M = Rs. 868 Million. Net Proceeds = Rs. 12,400M loan principal with interest obligation of Rs. 868M. Credit risk and collection responsibility remain with Reliance Traders.

- **Decision Recommendation:** Option A (Factoring) saves Rs. 124 Million in financing costs (Rs. 744M vs Rs. 868M) and completely removes the credit default risk and collection overhead from Reliance Traders. Therefore, Option A is recommended.

Part (b): Subhan Trading Corporation Marketable Securities

Cost vs Fair Value Calculations:

- **Kohinoor Mills Ltd:** Cost = 1,500 shares x Rs. 250 = Rs. 375,000. Fair Value (June 30, 2025) = 1,500 x Rs. 300 = Rs. 450,000. Unrealized Gain = Rs. 75,000.

- **Saif Group of Industries Ltd:** Cost = 2,000 shares x Rs. 85 = Rs. 170,000. Fair Value (June 30, 2025) = 2,000 x Rs. 100 = Rs. 200,000. Unrealized Gain = Rs. 30,000.

- **Total Portfolio Summary:** Total Cost = Rs. 545,000. Total Market Value = Rs. 650,000. Total Unrealized Gain = Rs. 105,000.

Accounting Journal Entries:

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
28-Sep-24	Marketable Securities - Kohinoor Mills To Cash (Purchased 1,500 shares @ Rs. 250)	375,000 -	- 375,000
15-Mar-25	Marketable Securities - Saif Group To Cash (Purchased 2,000 shares @ Rs. 85)	170,000 -	- 170,000
30-Jun-25	Unrealized Gain on Marketable Securities (P&L) (To adjust portfolio to mark-to-market fair value)	105,000 -	- 105,000

Financial Statement Presentation (as at June 30, 2025):

- **Balance Sheet (Current Assets):** Marketable Securities at Fair Value (Cost Rs. 545,000 + Fair Value Adjustment Rs.

105,000) = Rs. 650,000.

- **Income Statement (Other Income):** Unrealized Gain on Marketable Securities = Rs. 105,000.