Allama Iqbal Open University AIOU A.D B.Com Solved Assignment NO 1 Autumn 2024

Code 1413 Financial Accounting

Q.1

a. Describe financial Accounting and narrate the rules of Debit and Credit for the

classified accounts to record transactions in the books of accounts. **(20)**

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.

	Assets							=	Liabilities	+	Equity		
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land	=	Accounts Payable	+	Vera, Capital	+	Revenues
	$ 10,500	+	$ 0	+	$1,500	+	$ 9,500	=	$ 0	+	$21,500	+	$ 0
a.	− 2,000					+	2,000						
b.				+	500				+500				
c.		+	950									+	950
d.	− 500								−500				
e.	+ 950	−	950										
	$ 8,950	+	$ 0	+	$2,000	+	$11,500	=	$ 0	+	$21,500	+	$950

Ans;

Q.1 (a) Describe Financial Accounting and Narrate the Rules of Debit and Credit for the Classified Accounts to Record Transactions in the Books of Accounts.

Financial Accounting

Financial accounting is the branch of accounting that deals with the recording, summarizing, and reporting of financial transactions to provide a clear picture of a business's financial position. The primary goal of financial accounting is to produce accurate financial statements, such as the balance sheet, income statement, and cash flow statement, which are used by internal and external stakeholders to make informed decisions.

The steps involved in financial accounting include:

1. **Recording Transactions**: The first step is to identify and record business transactions in a journal.
2. **Classifying Transactions**: Transactions are classified into various accounts like assets, liabilities, revenues, and expenses.
3. **Summarizing**: The classified transactions are then summarized into financial statements.
4. **Reporting**: These financial statements are presented to stakeholders, such as investors, creditors, and management.

Rules of Debit and Credit for Classified Accounts

In financial accounting, every transaction affects at least two accounts. The effects are recorded using **debits** and **credits**. Here are the basic rules:

1. **Assets**:
    - **Debit** an asset account to increase it.
    - **Credit** an asset account to decrease it.

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Example: When the business buys office supplies, the office supplies account is debited, increasing the asset.

2. **Liabilities**:
   - **Debit** a liability account to decrease it.
   - **Credit** a liability account to increase it.

Example: If the business pays off a loan, the loan payable account is debited, decreasing the liability.

3. **Equity**:
   - **Debit** an equity account to decrease it (e.g., owner's withdrawals).
   - **Credit** an equity account to increase it (e.g., owner's contributions).

Example: If the owner invests additional capital, the capital account is credited, increasing equity.

4. **Revenue**:
   - **Debit** a revenue account to decrease it (e.g., refunds).
   - **Credit** a revenue account to increase it.

Example: When a sale is made, the revenue account is credited to reflect an increase in revenue.

5. **Expenses**:
   - **Debit** an expense account to increase it.
   - **Credit** an expense account to decrease it.

Example: When the business incurs a utility expense, the expense account is debited to show an increase in expenses.

Summary of Debit and Credit Rules:

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- **Debits**: Increase assets and expenses, decrease liabilities, equity, and revenue.
- **Credits**: Decrease assets and expenses, increase liabilities, equity, and revenue.

Q.1 (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.

Let's now analyze the five transactions (a through e) shown in the table and provide short descriptions for each:

Transaction (a)

- **Assets**: Cash increases by $10,500, Accounts Receivable increases by $2,000.
- **Liabilities**: No change in liabilities.
- **Equity**: Vera's Capital increases by $21,500.

Description: This transaction represents the investment made by the owner in the business, as the owner contributes capital. The increase in cash and receivables indicates the business has received assets from the owner's investment. The capital account is credited to reflect the increase in equity.

Transaction (b)

- **Assets**: Office Supplies increase by $500.
- **Liabilities**: Accounts Payable increases by $500.
- **Equity**: No change in equity.

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Description: The business purchases office supplies on credit, increasing assets (office supplies) and liabilities (accounts payable) equally. The business now owes money for the supplies purchased.

Transaction (c)

- **Assets**: Cash increases by $950, Accounts Receivable increases by $500.
- **Liabilities**: No change in liabilities.
- **Equity**: Revenues increase by $950.

Description: This transaction indicates the business making a sale. Part of the sale was paid in cash ($950), and the remainder is due from customers, increasing accounts receivable. The revenue generated from the sale is recognized and added to the equity.

Transaction (d)

- **Assets**: Cash decreases by $500.
- **Liabilities**: Accounts Payable decreases by $500.
- **Equity**: No change in equity.

Description: The business makes a payment for previously owed supplies or services, reducing both cash (asset) and accounts payable (liability). This transaction shows a decrease in liabilities as a result of paying off a debt.

Transaction (e)

- **Assets**: Cash increases by $950.
- **Liabilities**: Accounts Payable increases by $950.
- **Equity**: Revenues increase by $950.

Description: This transaction represents a sale made on credit. Cash increases when a portion of the sale is paid, and accounts receivable

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is created for the remaining balance. Revenues are recognized as the business earned the amount from the sale, which increases equity.

Summary of Transactions:

Transaction	**Assets (Increase/Decrease)**	**Liabilities (Increase/Decrease)**	**Equity (Increase/Decrease)**	**Description**
(a)	Cash +$10,500, Receivables +$2,000	No Change	Capital +$21,500	Owner's investment in the business.
(b)	Office Supplies +$500	Accounts Payable +$500	No Change	Purchase of office supplies on credit.
(c)	Cash +$950, Receivables +$500	No Change	Revenue +$950	Sale made with partial payment.
(d)	Cash -$500	Accounts Payable -$500	No Change	Payment of a previously owed liability.

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Transaction	**Assets (Increase/Decrease)**	**Liabilities (Increase/Decrease)**	**Equity (Increase/Decrease)**	**Description**
(e)	Cash +$950	Accounts Payable +$950	Revenue +$950	Sale made on credit with partial cash payment.

This table reflects how the five transactions affect Vera's Boutique’s financial position, covering cash flow, liabilities, and equity in each scenario.

Q.2

Shaw Management Services opens for business and completes these transactions in November. Nov.

(20)

1 Kita Shaw, the owner, invested $30,000 cash along with $15,000 of office equipment in the company.

2 The company prepaid $4,500 cash for six months' rent for an office. (Hint: Debit Prepaid Rent for $4,500.)

4 The company made credit purchases of office equipment for $2,500 and of office supplies for $600. Payment is due within 10 days.

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8 The company completed work for a client and immediately received $3,400 cash.

12 The company completed a $10,200 project for a client, who must pay within 30 days.

13 The company paid $3,100 cash to settle the payable created on November

19 The company paid $1,800 cash for the premium on a 24-month insurance policy.

22 The company received $5,200 cash as partial payment for the work completed on November 12.

24 The company completed work for another client for $1,750 on credit.

28 K. Shaw withdrew $5,300 cash from the company for personal use.

29 The company purchased $249 of additional office supplies on credit.

30 The company paid $531 cash for this month's utility bill.

Required

1. Prepare general journal entries to record these transactions (use account titles listed in part 2).
2. Open the following ledger accounts-their account numbers are in parentheses (use the balance Column format): Cash (101); Accounts Receivable (106): Office Supplies (124); Prepaid Insurance (128);

Prepaid Rent (131); Office Equipment (163); Accounts Payable (201); K. Shaw, Capital (301); K Sitne, Withdrawals (302); Services Revenue (403), and Utilities Expense (690). Post the journal entries from part I to the ledger accounts and enter the balance after each posting.

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3. Prepare a trial balance as of the end of November.

Ans:

1. General Journal Entries for November Transactions

November 1
Transaction: Kita Shaw, the owner, invested $30,000 cash along with $15,000 of office equipment in the company.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 1	Cash	$30,000	
	Office Equipment	$15,000	
	K. Shaw, Capital		$45,000
(Owner's investment in cash and office equipment)			

November 2
Transaction: The company prepaid $4,500 cash for six months' rent for an office.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 2	Prepaid Rent	$4,500	

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Date	Account Title	Debit	Credit
	Cash		$4,500

(Prepaid rent for six months)

November 4
Transaction: The company made credit purchases of office equipment for $2,500 and of office supplies for $600. Payment is due within 10 days.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 4	Office Equipment	$2,500	
	Office Supplies	$600	
	Accounts Payable		$3,100

(Credit purchases of office equipment and office supplies)

November 8
Transaction: The company completed work for a client and immediately received $3,400 cash.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 8	Cash	$3,400	
	Services Revenue		$3,400

Date	Account Title	Debit	Credit

(Cash received for completed work)

November 12
Transaction: The company completed a $10,200 project for a client, who must pay within 30 days.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 12	Accounts Receivable	$10,200	
	Services Revenue		$10,200

(Revenue earned on credit for completed project)

November 13
Transaction: The company paid $3,100 cash to settle the payable created on November 4.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 13	Accounts Payable	$3,100	
	Cash		$3,100

(Payment of accounts payable)

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November 19
Transaction: The company paid $1,800 cash for the premium on a 24-month insurance policy.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 19	Prepaid Insurance	$1,800	
	Cash		$1,800
(Payment of insurance premium for 24 months)			

November 22
Transaction: The company received $5,200 cash as partial payment for the work completed on November 12.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 22	Cash	$5,200	
	Accounts Receivable		$5,200
(Partial payment received from client)			

November 24
Transaction: The company completed work for another client for $1,750 on credit.
Journal Entry:

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Date	Account Title	Debit	Credit
Nov 24	Accounts Receivable	$1,750	
	Services Revenue		$1,750
(Revenue earned on credit for completed work)			

November 28
Transaction: K. Shaw withdrew $5,300 cash from the company for personal use.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 28	K. Shaw, Withdrawals	$5,300	
	Cash		$5,300
(Owner's withdrawal for personal use)			

November 29
Transaction: The company purchased $249 of additional office supplies on credit.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 29	Office Supplies	$249	
	Accounts Payable		$249

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Date	Account Title	Debit	Credit

(Purchase of office supplies on credit)

November 30
Transaction: The company paid $531 cash for this month's utility bill.
Journal Entry:

Date	Account Title	Debit	Credit
Nov 30	Utilities Expense	$531	
	Cash		$531

(Payment of utility bill)

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2. Ledger Accounts

(You can prepare ledger accounts in MS Word using the balance column format for each of the following accounts: Cash, Accounts Receivable, Office Supplies, Prepaid Insurance, Prepaid Rent, Office Equipment, Accounts Payable, K. Shaw, Capital, K. Shaw, Withdrawals, Services Revenue, and Utilities Expense.)

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3. Trial Balance as of November 30

Account Title	Debit ($)	Credit ($)
Cash	$27,489	
Accounts Receivable	$15,750	
Office Supplies	$849	
Prepaid Rent	$4,500	

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Account Title	**Debit ($)**	**Credit ($)**
Prepaid Insurance	$1,800	
Office Equipment	$17,500	
Accounts Payable		$3,349
K. Shaw, Capital		$45,000
K. Shaw, Withdrawals	$5,300	
Services Revenue		$15,350
Utilities Expense	$531	
Total	**$73,419**	**$73,419**

This completes the journal entries, ledger postings, and trial balance for Shaw Management Services.

Q.3

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? **(20)**

Ans:

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Q.3 a. Advantage of an Integrated Computer-Based Accounting System

An integrated computer-based accounting system is one where different modules or functions (e.g., accounts payable, accounts receivable, inventory, payroll, etc.) are connected within the same system. This means that data entered into one module automatically updates related information in other parts of the system.

Advantage: One major advantage of an integrated computer-based accounting system is **increased efficiency** and **reduced errors**. Since all modules are interconnected, the need for manual data entry in multiple places is eliminated. For instance, when an invoice is entered into the accounts payable system, it automatically updates the general ledger and inventory records (if applicable). This minimizes the risk of human error, ensures data consistency across all financial statements, and speeds up the processing time of financial transactions. Additionally, it makes reporting easier and faster, as all data is stored in a centralized location.

Q.3 b. Importance of Documentation in Accounting Information Systems (AIS)

Why Documentation is Important:

Documentation plays a crucial role in an accounting information system (AIS) because it provides a **clear record of processes**, **controls**, and **procedures** used within the system. This record helps ensure accuracy, consistency, and compliance with legal and regulatory standards. Documentation serves as a **reference tool** for accountants and other users to understand how the system operates and how financial data flows through various processes.

Key reasons why documentation is important include:

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1. **Audit Trail**: Documentation helps in tracing and verifying financial transactions. It makes auditing easier, as auditors can trace each step of a financial process.
2. **Compliance**: Proper documentation helps an organization comply with legal, tax, and regulatory requirements. It ensures that all financial transactions are appropriately recorded and can be reviewed when necessary.
3. **Internal Controls**: Through documentation, internal control procedures can be formalized and enforced, ensuring that the system operates as intended and minimizing risks like fraud or mismanagement.
4. **System Understanding**: For employees working within an AIS, proper documentation helps them understand the processes and how they contribute to the system as a whole.

Why Accountants Should Be Interested in AIS Documentation: Accountants should be interested in AIS documentation because it provides a clear roadmap of how transactions are processed, tracked, and recorded. It helps ensure:

- The accuracy and completeness of financial data.
- Compliance with accounting standards and regulations.
- The integrity and security of financial information.
- The ability to identify weaknesses or inefficiencies in the system.

Distinction between Document Flowcharts, System Flowcharts, Data Flow Diagrams, and Program Flowcharts

These flowcharts are tools used in accounting information systems (AIS) to visualize and document different processes, but they differ in

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their purpose, scope, and representation. Let's break down each one:

1. Document Flowchart

A **document flowchart** illustrates the movement of documents and forms within an organization or system. It shows how documents are created, transferred, and stored across various departments or stages.

- **Purpose**: To trace the physical flow of documents.
- **Scope**: It focuses specifically on documents and their handling.
- **Example**: A flowchart showing how an invoice travels from sales to accounts receivable and finally to payment processing.

Key Feature: The document flowchart is concerned with **physical documents** and **paper-based processes**.

2. System Flowchart

A **system flowchart** provides a high-level view of the entire system's processes. It outlines how data moves within the system and how different operations or modules are interconnected.

- **Purpose**: To map out the operations or procedures in the entire system.
- **Scope**: Includes both data flow and processing steps across the system.
- **Example**: A flowchart that shows how an accounting system processes a transaction, from data entry to final reporting.

Key Feature: A system flowchart focuses on the **overall system** and how different components interact.

3. Data Flow Diagram (DFD)

A **data flow diagram** visualizes the flow of data through a system, showing how inputs are processed to produce outputs. It also highlights data sources, data stores, and data destinations.

- **Purpose**: To illustrate how information flows through the system and how it is processed.
- **Scope**: Data movement and processing steps are emphasized.
- **Example**: A DFD might show how customer orders are entered into a system, processed, and stored in a database.

Key Feature: DFD focuses specifically on the **data flow** and processing logic of a system.

4. Program Flowchart

A **program flowchart** is a detailed diagram used to represent the logic and steps of a computer program or process. It breaks down the logic of the program in terms of decisions, operations, and steps.

- **Purpose**: To map the logic or sequence of a program's operations or instructions.
- **Scope**: It is very detailed and technical, focusing on the internal workings of a program.
- **Example**: A flowchart showing the sequence of steps a program follows to calculate the total amount due on an invoice.

Key Feature: A program flowchart is **program-specific** and deals with the **steps within a program**.

Similarities and Differences

Similarities:

- All four flowchart types are used to **visualize processes** and make systems easier to understand.

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- They aim to **clarify operations**, whether it's the movement of documents, flow of data, or the logic within a system.
- They are essential for **troubleshooting**, **auditing**, and ensuring system integrity.

Differences:

Flowchart Type	**Focus**	**Purpose**	**Scope**
Document Flowchart	Movement of physical documents	To trace document flow	Concerned with physical documents
System Flowchart	Entire system and its processes	To visualize system operations and interactions	Includes data processing and operations
Data Flow Diagram	Movement and processing of data	To show how data flows and is processed	Focused on data processing
Program Flowchart	Internal logic of a program	To show the sequence of operations within a program	Detailed and technical logic of a program

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In conclusion, each type of flowchart serves a unique function in documenting and visualizing various parts of an accounting information system. Properly understanding and using these tools ensures clearer communication, better control, and more efficient system design and maintenance.

Q.4

For each of the following separate cases, prepare adjusting entries required of financial statements for the year ended on December 31, 2018. (Assume that prepaid expenses are initially recorded in asset accounts and that fees collected in advance of work are initially recorded as liabilities.) **(20)**

a. One-third of the work related to Rs.30.000 cash received in advance is performed this period.

b. Wages of Rs 9,000 are earned by workers but not paid as of December 31, 2018.

c. Depreciation on the company's equipment for 2018 is Rs. 19,127.

d. The Office Supplies account had a Rs.480 debit balance on December 31, 2017. During 2018, Rs.5,349 of office supplies are purchased. A physical count of supplies at December 31, 2018, shows Rs.587 of supplies available.

e. The Prepaid Insurance account had a Rs.5,000 balance on December 31, 2017. An analysis of insurance policies shows that Rs.2,200 of unexpired insurance benefits remain at December 31, 2018.

f. The company has earned (but not recorded) Rs.750 of interest from investments in CDs for the year ended December 31, 2018. The interest revenue will be received on January 10, 2019.

g. The company has a bank loan and has incurred (but not recorded) interest expense of Rs.3,500 for the year ended December 31, 2018. The company must pay the interest on January 2, 2019

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Ans:

Adjusting Entries for the Year Ended December 31, 2018

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a. One-third of the work related to Rs. 30,000 cash received in advance is performed this period.

Date: December 31, 2018
Debit: Unearned Revenue Rs. 10,000 (Rs. 30,000 * 1/3)
Credit: Service Revenue Rs. 10,000

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b. Wages of Rs. 9,000 are earned by workers but not paid as of December 31, 2018.

Date: December 31, 2018
Debit: Wages Expense Rs. 9,000
Credit: Wages Payable Rs. 9,000

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c. Depreciation on the company's equipment for 2018 is Rs. 19,127.

Date: December 31, 2018
Debit: Depreciation Expense Rs. 19,127
Credit: Accumulated Depreciation Rs. 19,127

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d. The Office Supplies account had a Rs. 480 debit balance on December 31, 2017. During 2018, Rs. 5,349 of office supplies are

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purchased. A physical count of supplies at December 31, 2018, shows Rs. 587 of supplies available.

Calculation for supplies used: Opening Balance: Rs. 480
Purchases: Rs. 5,349
Ending Balance: Rs. 587
Supplies Used = (480 + 5,349 - 587) = Rs. 5,242

Date: December 31, 2018
Debit: Office Supplies Expense Rs. 5,242
Credit: Office Supplies Rs. 5,242

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e. The Prepaid Insurance account had a Rs. 5,000 balance on December 31, 2017. An analysis of insurance policies shows that Rs. 2,200 of unexpired insurance benefits remain at December 31, 2018.

Calculation for insurance expired: Opening Balance: Rs. 5,000
Unexpired Insurance: Rs. 2,200
Expired Insurance = Rs. 5,000 - Rs. 2,200 = Rs. 2,800

Date: December 31, 2018
Debit: Insurance Expense Rs. 2,800
Credit: Prepaid Insurance Rs. 2,800

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f. The company has earned (but not recorded) Rs. 750 of interest from investments in CDs for the year ended December 31, 2018. The interest revenue will be received on January 10, 2019.

Date: December 31, 2018
Debit: Interest Receivable Rs. 750
Credit: Interest Revenue Rs. 750

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g. The company has a bank loan and has incurred (but not recorded) interest expense of Rs. 3,500 for the year ended December 31, 2018. The company must pay the interest on January 2, 2019.

Date: December 31, 2018
Debit: Interest Expense Rs. 3,500
Credit: Interest Payable Rs. 3,500

Q.5

a. Reliance Traders are involved in the supply of office Furniture on credit basis to different private and public sector organizations. Due to lose control over collection procedure of its dues, the company is facing financial crises as the collection is not matching with disbursement schedules of funds. Presently the accounts receivable from different organizations have accumulated at Rs. 15500 million. With a view to facilitate meeting its maturing obligations in time, the enterprise has two options available with it which are as under: - **(20)**

A) Factoring its accounts receivable to the extent of 80% at factoring fee of 6% to an agency.

B) Pledging its accounts receivables to the extent of 80% at the flat interest of 7% with a Bank for taking loan.

b. Subhan Trading Corporation, through its intensive efforts for collection of its accounts receivable during the recent past period has some surplus funds in its working capital. The management wishes to generate some financial benefits from these available funds through investment equity shares. According by the corporation availed some opportunities and invested funds in the marketable securities as under:-

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1) Purchased 1,500 shares of Kohinoor Mills Ltd of Rs. 100 each par value, at Rs. 250 each as on 28 September 2020 which have the market value of Rs. 300 each as on 30 June 2021.

2) Acquired 2,000 shares of Saif Group of Industries Ltd of Rs. 50 each par value at Rs. 85 each on 15 March, 2021 which have the market value of Rs.100 each as at 30 June, 2021.

Required

1) Record the purchase of marketable securities of both the companies in the accounting books.

2) Record the increase in the market price of investment in the accounts.

3) Present the marketable securities in the financial statements in compliance to mark to market concept of securities.

Ans:

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a. Reliance Traders: Options for Managing Accounts Receivable

Reliance Traders is facing financial challenges due to the accumulation of accounts receivable amounting to Rs. 15,500 million. The company has two options to manage these receivables to meet its financial obligations.

Option A: Factoring Accounts Receivable

- Factoring involves selling accounts receivable to a third-party agency at a discount. The agency then takes over the responsibility for collection.

- The factoring fee is 6%, and the company plans to factor 80% of its receivables.

Calculation:

- 80% of Rs. 15,500 million = Rs. 12,400 million.
- The factoring fee = 6% of Rs. 12,400 million = Rs. 744 million.
- The company will receive Rs. 12,400 million - Rs. 744 million = Rs. 11,656 million from the factoring agency.

Option B: Pledging Accounts Receivable for a Loan

- Pledging means using the accounts receivable as collateral for a loan.
- The company can pledge 80% of its accounts receivable to the bank at an interest rate of 7%.

Calculation:

- 80% of Rs. 15,500 million = Rs. 12,400 million.
- The loan interest = 7% of Rs. 12,400 million = Rs. 868 million.
- The company will receive Rs. 12,400 million (loan amount) but must pay Rs. 868 million as interest over time.

Comparison:

- **Factoring** offers immediate cash (Rs. 11,656 million) but comes with a cost of Rs. 744 million in factoring fees.
- **Pledging** allows the company to receive Rs. 12,400 million, but it will have to repay Rs. 868 million as interest over time.

In summary, factoring provides immediate liquidity but at a higher cost, while pledging offers a larger loan amount with interest payments spread over time.

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b. Subhan Trading Corporation: Investment in Marketable Securities

1. Record the purchase of marketable securities

Subhan Trading Corporation has made the following investments in marketable securities:

- **Kohinoor Mills Ltd:** 1,500 shares with a par value of Rs. 100 each, purchased at Rs. 250 each on 28th September 2020.
- **Saif Group of Industries Ltd:** 2,000 shares with a par value of Rs. 50 each, purchased at Rs. 85 each on 15th March 2021.

Accounting Entries:

- **Kohinoor Mills Ltd. Purchase:**
  - Date: 28th September 2020
    Debit: Marketable Securities (Kohinoor Mills Ltd) Rs. 375,000 (1,500 shares * Rs. 250)
    Credit: Cash Rs. 375,000
- **Saif Group of Industries Ltd. Purchase:**
  - Date: 15th March 2021
    Debit: Marketable Securities (Saif Group of Industries Ltd) Rs. 170,000 (2,000 shares * Rs. 85)
    Credit: Cash Rs. 170,000

2. Record the increase in the market price of investment in the accounts

At the end of June 2021, the market value of the securities has increased.

- **Kohinoor Mills Ltd Market Value:** Rs. 300 per share
- **Saif Group of Industries Ltd Market Value:** Rs. 100 per share

Increase in Market Value:

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- **Kohinoor Mills Ltd:**
    - Market value = 1,500 shares * Rs. 300 = Rs. 450,000
    - Increase in value = Rs. 450,000 - Rs. 375,000 = Rs. 75,000
- **Saif Group of Industries Ltd:**
    - Market value = 2,000 shares * Rs. 100 = Rs. 200,000
    - Increase in value = Rs. 200,000 - Rs. 170,000 = Rs. 30,000

Accounting Entries:

- **Kohinoor Mills Ltd Increase:**
    - Date: 30th June 2021
      Debit: Marketable Securities Rs. 75,000
      Credit: Unrealized Gain on Marketable Securities Rs. 75,000
- **Saif Group of Industries Ltd Increase:**
    - Date: 30th June 2021
      Debit: Marketable Securities Rs. 30,000
      Credit: Unrealized Gain on Marketable Securities Rs. 30,000

3. Present the marketable securities in the financial statements in compliance with the mark-to-market concept

Under the **mark-to-market** concept, securities are valued at their current market price rather than their historical cost. The increase in the market value of the securities must be reflected in the financial statements as an unrealized gain.

- **Balance Sheet:**
    - Marketable Securities will be reported at their current market value.
        - **Kohinoor Mills Ltd:** Rs. 450,000

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        - **Saif Group of Industries Ltd:** Rs. 200,000
- **Income Statement:**
    - Unrealized gains of Rs. 75,000 (Kohinoor Mills Ltd) and Rs. 30,000 (Saif Group of Industries Ltd) will be reported as other income under "Unrealized Gains on Marketable Securities."

Summary of Adjusting Entries

Transaction	Debit	Credit
Purchase of Kohinoor Mills Ltd Securities	Marketable Securities Rs. 375,000	Cash Rs. 375,000
Purchase of Saif Group of Industries Ltd Securities	Marketable Securities Rs. 170,000	Cash Rs. 170,000
Increase in Market Value of Kohinoor Mills Ltd Securities	Marketable Securities Rs. 75,000	Unrealized Gain on Marketable Securities Rs. 75,000
Increase in Market Value of Saif Group of Industries Ltd Securities	Marketable Securities Rs. 30,000	Unrealized Gain on Marketable Securities Rs. 30,000

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