

# Semester “Spring 2011”

## “Financial Statement Analysis (FIN621)”

Assignment No. 01

Marks: 15

### “Adjusting entries and its effect”

#### Question:

Eagle Security Service (PVT) Ltd. provides security solutions to various offices and shopping centers in the city. The books of accounts of the company are closed at the end of the calendar year. The following transactions occurred during the financial year 2009.

1. On August 01, the company received Rs. 40,000 as advance payment from ABC Shopping Mall for security services that are to be performed for the period of four months starting from August 01. The accountant of the Eagle Security Service recorded the same amount by crediting the “services revenue account” on August 01, 2009.
2. XYZ Company Limited filed a lawsuit against the Eagle Security Service (PVT) Ltd. For claims of worth Rs. 30,000 but the suit has not yet been settled.
3. On December 01, 2009, the company received Rs. 36,000 from the “Stylish Jewelers” located on the Main Boulevard for security services to be performed for the period of six months starting from December 01, 2009. The entire amount was credited to the “unearned services revenue account”
4. The company uses a rental building as head office for which rent is accrued of Rs. 80,000 for twelve months up to the end of December but the company usually records rent expense when the rent is actually paid. Rent is normally paid in the first month of next year.
5. Entries are recorded for salaries expenses when employees are actually paid. Salaries are still to be paid amounting to Rs. 50,000 of one month till December 31, 2009.
6. On December 01, 2009 the company borrowed Rs. 300,000 from National Bank of Pakistan by issuing a 15% note payable due after six months. No entry is passed by the accountant yet.
7. On October 31, 2009 the company made a payment of worth Rs. 18,000 for insurance policy of one year starting from the beginning of November 01 2009. The whole amount was recorded as “prepaid insurance account”.
8. No depreciation expense for year has been recognized of the fixed asset having the cost of Rs. 80,000 and the book value of Rs. 51,200. Previously assets were depreciated (written down value method) @ 20% per annum.

### Instructions:

1. For each above transaction pass the adjusting entry, if required; at December 31, 2009. (Simply state "NO" with one line reason where adjusting entry is not required).
2. Explain the effect after adjustments on the "Expenses, Assets and Owners' equity" of the company. **Use the below format where "I" = increase , "D" = Decrease and "NE" = No Effect**

| Sr. No | Expense | Asset | Owners' equity |
|--------|---------|-------|----------------|
| 1      |         |       |                |
| 2      |         |       |                |
| 3      |         |       |                |
| 4      |         |       |                |
| 5      |         |       |                |
| 6      |         |       |                |
| 7      |         |       |                |
| 8      |         |       |                |

### Important Tips

1. This Assignment can be best attempted from the knowledge acquired after watching video lecture no. 1 to lecture no 13 and reading handouts as well as recommended text book).
2. Video lectures can be downloaded for free from [www.youtube.com/vu](http://www.youtube.com/vu).

### **Schedule**

**Opening Date and Time**

**April 22, 2011 At 12:01 A.M. (Mid-Night)**

**Due Date and Time**

**April 27 , 2011 At 11:59 P.M. (Mid-Night)**

**Note:** Only in the case of Assignment, *24 Hrs extra / grace period* after the above mentioned due date is usually available to overcome uploading difficulties which may be faced by the students on last date. This extra time should only be used to meet the emergencies and above mentioned due dates should always be treated as final to avoid any inconvenience.

### Important Instructions:

Please read the following instructions carefully before attempting the assignment solution.

#### **Deadline:**

- **Make sure that you upload the solution file before the due date. No assignment will be accepted through e-mail after the due date.**

#### **Formatting guidelines:**

- **Use the font style "Times New Roman" and font size "12".**
- **It is advised to compose your document in MS-Word 2003.**
- **Use black and blue font colors only.**

#### **Solution guidelines:**

- **Every student will work individually and has to write in the form of an analytical assignment.**
- **Give the answer according to question, there will be negative marking**

for irrelevant material.

- For acquiring the relevant knowledge don't rely only on handouts but watch the video lectures and use other reference books also.

### Rules for Marking

Please note that your assignment will not be graded or graded as Zero (0) if:

- It has been submitted after due date.
- The file you uploaded does not open or is corrupt.
- It is in any format other than .doc (MS. Word)
- It is cheated or copied from other students, internet, books, journals etc...