



ALLAMA IQBAL OPEN UNIVERSITY
Semester Terminal Exam Autumn 2020

Program /level:	BBA/Graduation	Maximum Marks	100
Title /Course Code	Advanced Accounting (8404)	Pass marks	50

Instructions for Exams:

1. Attempt All Questions.
2. Write answers in your own words and avoid copying from an internet source or any book.
3. Be precise, avoid unnecessary details, answer to each question must be between 600-800 words.
4. Students are advised to upload their answer sheets/solutions on LMS portal as soon as they complete their answers and not to wait for 8:30 PM.
5. Submissions after due date & time will not be entertained. Attach undertaking with each course code which were allowed to attempt in Urdu.
6. If plagiarism found, Student may be declared fail.

Q. No.	Questions	Marks
1	<p>Happy Trails, Inc., is a popular family resort just outside Yellowstone National Park. Summer is the resort's busy season, but guests typically pay a deposit at least six months in advance to guarantee their reservations.</p> <p>The resort is currently seeking new investment capital in order to expand operations. The more profitable Happy Trails appears to be, the more interest it will generate from potential investors. Ed Grimm, an accountant employed by the resort, has been asked by his boss to include \$2 million of unearned guest deposits in the computation of income for the current year. Ed explained to his boss that because these deposits had not yet been earned they should be reported in the balance sheet as liabilities, not in the income statement as revenue. Ed argued that reporting guest deposits as revenue would inflate the current year's income and may mislead investors.</p> <p>Ed's boss then demanded that he include \$2 million of unearned guest deposits in the computation of income or be fired. He then told Ed in an assuring tone, "Ed, you will never be held responsible for misleading potential investors because you are just following my orders."</p> <p>Required:</p> <ol style="list-style-type: none">a) In your opinion, should Ed Grimm be forced to knowingly overstate the resort's income in order to retain his job? Justify your answer with concrete arguments.b) Is Ed's boss correct in saying that Ed cannot be held responsible for misleading potential investors? Discuss.	35
2	<p>There are different accounting standards used by the companies across the globe in order to make their accounting practices acceptable and comparable among the industries. International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP) are the most used accounting principles. In your opinion, which one provides better treatment for accounting issues? Do these standards deal with all the</p>	30

<p>3</p>	<p>The Sarbanes-Oxley Act requires that the CEO (chief executive officer) and CFO (chief financial officer) of publicly traded corporations include statements of personal certification in the disclosures accompanying the financial reports filed with the Securities and Exchange Commission (SEC). In essence, these statements hold the CEO and CFO personally liable for their company's annual report content. The personal certifications must be signed by both the CEO and the CFO. Each certification requires that the CEO and CFO commit to the following statements:</p> <ol style="list-style-type: none"> 1. I have reviewed this annual report. 2. On the basis of my knowledge, this report does not contain any untrue statements of material facts or omissions of material facts. 3. On the basis of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the business. 4. I am responsible for establishing and maintaining disclosure controls and procedures. 5. I have disclosed any fraud, whether or not material, and have disclosed all significant control deficiencies and material weaknesses involving the company's financial reporting. <p>Required: Discuss the meaning and purpose of the personal certification requirement. How might this requirement contribute to improved investor confidence? Do you think that such requirement is a step towards transparency of financial statements?</p>	<p>35</p>
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