QUESTION NO. 1

(1) **Capital Stock:** It is the amount of capital with which a company is registered. This capital is mentioned in the memorandum of association. This capital is also known as nominal capital or registered capital.

(2) **Bonds / PTC:** A bond is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate.

(3) **Debt Equity Ratio:** It is the relationship between borrowed funds and internal owner's funds.

$$\text{Debt equity ratio} = \frac{\text{Total long term debts}}{\text{Shareholder funds}}$$

(4) **Share Premium:** When a share having face value of Rs. 10 is issued by the company for an amount more than Rs. 10, the shares are said to have been issued at a premium. The amount realized in excess of the par value is called premium on shares or share premium.

(5) **Bank:** Bank is an institution which deals in money. It accepts deposits from its clients and makes loans and advances to them for productive and non-productive purposes in need. It accepts deposits at low rate of interest and lends at high rate of earn profit.

(6) **Hire Purchaser:** Hire purchaser or hirer is a person who acquires or obtains the possession of goods (assets) from the seller (owner) under a hire purchase agreement.

(7) **Winding Up of the Company:** Liquidation or winding up of a company is a process by which dissolution of a company brought about and its property is administered for the benefit of its creditors and members. An administrator called liquidator is appointed who takes over the control of the company, collects its assets, pays its debts and finally distributes the surplus among its members in accordance with their rights.

(8) **Work in Progress:** The work in progress includes the amount of work certified and the amount of work uncertified. It is appeared on the asset side of balance sheet. The amount of cash received and reserve for contingencies will be deducted out of this amount.

(9) **Inventory Stock Turnover Ratio:** It indicates the velocity with which stock of finished goods is sold. It is expressed as number of times.

$$\text{Stock turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

(10) **Absorption:** Absorption is the combination of two or more companies into one, where only the acquiring company retains its identity and the acquired company is dissolved. Typically, the larger of the two companies is the acquiring company whose identity is maintained.

Usman Munir & Company
Trading and Profit & Loss Account
For the year ended on 31-12-2012

Particulars		Rs.	Particulars	Rs.
Opening stock		100,000	Sales	850,000
Purchases		600,000	Closing stock	200,000
Wages	140,000			
Add: Outstanding	10,400	150,400		
Gross profit c/d		199,600		
		10,50,000		10,50,000
Discount allowed		8,400	Gross profit b/d	199,600
Insurance	13,440		Discount received	6,300
Less: Prepaid				
(13,440 × 6/12)	6,720	6,720		
Salaries	37,000			
Add: Outstanding	2,400	39,400		
Rent	12,000			
Add: Outstanding	1,200	13,200		
General expenses		17,900		
Printing & stationary		4,800		
Advertisement		7,600		
Postage & telephone etc.		21,000		
Depreciation on:				
Plant & machinery	24,150			
Furniture	3,400	27,550		
Bad debts		6,400		
Net profit (transferred to P & L app. A/c)		52,930		
		205,900		205,900

Profit & Loss Appropriation Account

Particulars	Rs.	Particulars	Rs.
Proposed dividend (500,000 × 5/100)	25,000	Balance b/d	12,440
		Current year net profit	52,930
Balance c/d (transferred to B/S)	40,370		
	65,370		65,370

Usman Munir & Company
Balance Sheet
As on 31-12-2012

Share Capital & Liabilities	Rs.	Assets		Rs.
Share Capital:		**Fixed Assets:**		
Authorized capital	10,00,000	Plant and machinery	161,000	
100,000 shares @ Rs. 10 each		Less: Depreciation	24,150	136,850
Issued, subscribed & paid up capital	500,000	Furniture	34,000	
50,000 shares @ Rs. 10 each		Less: Depreciation	3,400	30,600
Reserves:		**Current Assets:**		
General reserves	50,000	Closing stock		200,000
Profit & loss appropriation A/c	40,370	Debtors		77,400
Current Liabilities:		Prepaid insurance		6,720
Creditors	70,400	Cash at bank		279,600
Loan from managing director	31,400			
Outstanding wages	10,400			
Outstanding salary	2,400			
Outstanding rent	1,200			
Proposed dividend	25,000			
	731,170			731,170

QUESTION NO. 3 Q-12

(1) The working capital = Current assets – Current liabilities

2015 = 142,500 (W–1) – 60,000

= **Rs. 82,500**

2016 = 172,500 (W–1) – 100,000

= **Rs. 72,500**

(2) The current ratio $= \dfrac{\text{Current assets}}{\text{Current liabilities}}$

2015 $= \dfrac{142,500}{60,000}$

= **2.375 : 1**

2016 $= \dfrac{172,500}{100,000}$

= **1.725 : 1**

QUESTION NO. 4

Contract Account
For the year ended on 31-12-2003

Particulars	Rs.	Particulars		Rs.
Materials	240,000	Work-in-Progress:		
Depreciation on plant	4,000	Work certified	600,000	
(Rs. 40,000 × 10/100)		(Rs. 480,000 × 100/80)		
Wages	128,000	+ Work uncertified	20,000	620,000
Establishment expenses	12,000	Material on hand		20,000
Profit c/d	256,000			
	640,000			640,000
Profit & loss account (W–1)	136,533	Profit b/d		256,000
Work-in-progress	119,467			
(Reserve for contingency)				
	256,000			256,000

Balance Sheet
As on 31-12-2003

Assets		Rs.
Work-in-Progress:		
Work certified	600,000	
Add: Work uncertified	20,000	
	620,000	
Less: Cash received	480,000	
	140,000	
Less: Reserve for contingency	119,467	20,533

WORKING NOTES:

(W–1) Profit Credited to Profit & Loss Account:

$$= \text{Profit} \times \frac{2}{3} \times \frac{\text{Cash received}}{\text{Work certified}}$$

$$= \text{Rs. } 256{,}000 \times \frac{2}{3} \times \frac{80}{100}$$

$$= \underline{\text{Rs. } 136{,}533}$$

QUESTION NO. 5

Journal

Date	Details	L/F	Debit Rs.	Credit Rs.
	Long term loans account		400,000	
	(40,000 shares × Rs. 10) Share capital account			400,000
	(Shares issued at par to pay long term loans)			
	Reserve fund account (W–3)		75,000	
	Un-appropriated profit account (W–3)		75,000	
	Bonus to shareholders account			150,000
	(Bonus declared out of reserve fund and un-appropriated profit)			
	Bonus to shareholders account		150,000	
	(15,000 shares × Rs. 10) Share capital account			150,000
	(Issuance of bonus shares at par)			

Sitara Industries Ltd.
Balance Sheet
As on 31-12-2001

Share Capital & Liabilities	Rs.
Authorized Capital:	20,00,000
(200,000 shares @ Rs. 10 each)	
Issued, Subscribed and Paid-up Capital:	15,50,000
(155,000 shares (W–4) @ Rs. 10 each	
Reserves:	
Reserve fund (Rs. 300,000 – Rs. 75,000)	225,000
Un-appropriated profit (Rs. 120,000 – Rs. 75,000)	45,000
Long Term Loans:	
Long term loans (Rs. 400,000 – Rs. 400,000)	–
	18,20,000

WORKING NOTES:

(W–1) **No. of Shares Issued Against Long Term Loans:**

$$= \frac{\text{Amount of long term loans}}{\text{Value per share}}$$

$$= \frac{\text{Rs. } 400{,}000}{\text{Rs. } 10}$$

$$= \underline{40{,}000 \text{ shares}}$$

(W–2) No. of Bonus Shares:

$$= \text{Ordinary shares} \times \frac{15}{100}$$

$$= 100{,}000 \text{ shares} \times \frac{15}{100}$$

$$= 15{,}000 \text{ shares}$$

(W–3) Amount of bonus = No. of bonus shares × Rs. 10

= 15,000 shares (W–2) × Rs. 10

= Rs. 150,000

Reserve fund
Rs. 75,000

Un-appropriated profit
Rs. 75,000

(W–4) Total Shares Issued	**Shares**
Existing shares	100,000
+ Issued against long term loans	40,000
+ Bonus shares	15,000
	155,000

QUESTION NO. 6

Q. 6

Journal

Date	Details	L/F	Debit Rs.	Credit Rs.
(a)	Bank A/c		500,000	
	6% debentures A/c			500,000
	(Issuance of debentures at par and redeemable at par)			
(b)	Bank A/c (Rs. 500,000 – Rs. 50,000)		450,000	
	Discount on issue of debentures A/c (Rs. 500,000 × 10/100)		50,000	
	6% debentures A/c			500,000
	(Issuance of debentures at discount and redeemable at par)			
(c)	Bank A/c (Rs. 500,000 + Rs. 25,000)		525,000	
	6% debentures A/c			500,000
	(Rs. 500,000 × 5/100) Premium on issue of debentures A/c			25,000
	(Issuance of debentures at premium and redeemable at par)			

(d)	Bank A/c Loss on issue of debentures A/c 6% debentures A/c (Rs. 500,000 × 10/100) Premium on redemption of debentures A/c (Issuance of debentures at par and redeemable at premium)	500,000 50,000	 500,000 50,000
(e)	Bank A/c (Rs. 500,000 – Rs. 50,000) Discount on issue of debentures A/c (Rs. 500,000 × 10/100) Loss on issue of debentures A/c 6% debentures Premium on redemption of debentures A/c (Issuance of debentures at discount and redeemable at premium)	450,000 50,000 25,000	 500,000 25,000

Public Corporation
Balance Sheet
As on ....

S.No.	Share Capital & Liabilities	Rs.	S.No.	Assets	Rs.
(a)	6% debentures	500,000	(a)	Bank	500,000
		500,000			500,000
(b)	6% debentures	500,000	(b)	Discount on issue of debentures Bank	50,000 450,000
		500,000			500,000
(c)	Premium on issue of debentures 6% debentures	25,000 500,000	(c)	Bank	525,000
		525,000			525,000
(d)	6% debentures Premium on redemption of debentures	500,000 50,000	(d)	Loss on issue of debentures Bank	50,000 500,000
		550,000			550,000
(e)	6% debentures Premium on redemption of debentures	500,000 25,000	(e)	Discount on issue of debentures Loss on issue of debentures Bank	50,000 25,000 450,000
		525,000			525,000

QUESTION NO. 7

In the Books of Nadeem Stores Ltd. Multan
Hyderabad Branch Account
For the year ended on 31-12-2007

Date	Particulars	Rs.	Date	Particulars	Rs.
2007			2007		
Jan. 1	Balance b/d:		Dec. 31	Bank A/c:	
	Stock 30,000			Cash sales 215,000	
	Sundry debtors 16,800	46,800		Received from debtors 210,000	425,000
Dec. 31	Goods sent to branch	218,400		Stock reserve (Rs. 30,000 × 20/120)	5,000
Dec. 31	Bank A/c:		Dec. 31	Goods sent to branch – Load	36,400
	Rent, rates & taxes 9,600		Dec. 31	(Rs. 218,400 × 20/120)	
	Sundry expenses 1,920	11,520		Balance c/d:	
Dec. 31	Stock reserve (Rs. 36,000 × 20/120)	6,000	Dec. 31	Stock 36,000	
Dec. 31	General P & L A/c – Profit	241,280		Sundry debtors 21,600	57,600
		524,000			524,000