

ALLAMA IQBAL OPEN UNIVERSITY

Level: Bachelor
Paper: **Advanced Accounting (444)**
Time Allowed: 3 hrs

Semester: Spring 2009
Maximum Marks: 100
Pass Marks: 40

Note: - **ATTEMPT FIVE QUESTIONS. ALL CARRY EQUAL MARKS. QUESTION NO (1) IS COMPULSORY.**

- Q. No.1 The Creditor and Shareholders having agreed upon a scheme of reconstruction the United Trading Company Limited went into Voluntary Liquidation. The Balance Sheet at the date of reconstruction stood as follows:

	Rs.		Rs.
25000 shares of Rs.10 each	250000	Goodwill	40000
5 percent Debenture	100000	Building	95000
Trade Certificate	40000	Machinery	105000
Reserve for Doubtful Debts	7000	Trade Debtors	60000
		Bank Balance	2000
Depreciation Fund	20000	Profit & Loss A/C	65000
	417000		417000

The Scheme of Reconstruction provided as under:

- a) That a new company may be formed with the share capital of Rs.500000 in 50000 shares of Rs.10 each to take over from the above company stock and Trade debtors at 20 percent less than the book value and Building and Machinery at Rs.77000 and Rs.100000 respectively.
 - b) The debenture holders were to be satisfied by the issue of 6 percent Mortgage Debenture of Rs.150000 in the new company in exchange for old debentures.
 - c) The trade creditors agreed to receive Rs.35000 from the new company in full settlement of their claims.
 - d) The shareholders agreed to receive 25000 shares of Rs.10 each fully paid.
 - e) The bank balance was utilized in payment of reconstruction expenses.
- Required:** Give the opening Journal Entries and Balance Sheet in the Books of the New Company.
- Q. No.2 What are departmental accounts? Explain the basis of allocation of expenses over various departments.
- Q. No.3 (a) Distinguish between the current ratio and the acid-test ratio.
(b) The average inventory for the Star Company at cost price is Rs.40000 sales for 1998 were made at 20 percent above cost and totalled Rs.300000.
- Required:** (a) What was the inventory turnover rate?
(b) What is the average age of the inventory, assuming a 300-day in a year?
- Q. No.4 Define Amalgamation, Absorption and Reconstruction. What entries are passed by a company to close its books when it is absorbed by another company?
- Q. No.5 A public Limited Company issued 1000 six percent Debentures of Rs.100 each. Give Journal Entries and the balance sheet in each of the following cases:
- a) The Debentures are issued at par and redeemable at par
 - b) The Debentures are issued at a discount of 5 percent but redeemable at par
 - c) The Debentures are issued at premium of 4 percent but redeemable at par
 - d) The Debentures are issued at a discount of 5 percent but are redeemable at a premium of 5 percent
- Q. No.6 What are Right Shares? When can a Public Limited Company issue Right Shares? What procedure may be adopted to calculate the value of this right?
- Q. No.7 Differentiate between:
- a) External Reconstruction and Internal Reconstruction.
 - b) Hire-purchase system and instalment purchase system
 - c) Solvency and Liquidity
- Q. No.8 State what you understand by the following terms and where each of them will appear in the Final Accounts of a Life Insurance Company.
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|----------------------|-------------------------|-----------------------------|
| a) Re-insurance | (b) Surrenders | (c) Bonus to policy-holders |
| d) Claim by Maturity | (e) Loans on Reversions | |

