

تمام کلاسز کی حل شدہ مشقیں MrPakistani ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	444 Code
Course Name:	Advanced Accounting
Class:	B.Com/AD
Total Credit Hours	3
Total Assignments	2

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

نوٹ: ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



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Assignment 2

Question 1

Ali Contractors secured a building construction contract for Rs. 15,000,000 on 15 March 2024 from Shazeb Manufacturing Company. The building would be used as a Factory. The contractor started the work in May 2024 and up till end of June 2024 following costs and expenses were incurred on the job:

- Material purchased: Rs. 1,200,000
- Material issued from stores: Rs. 300,000
- Wages of workers: Rs. 900,000
- Plant purchased: Rs. 1,000,000
- Overhead Costs: Rs. 250,000
- Administrative Salaries: Rs. 150,000

By the end of June 2024, the works certified by the resident engineer amounted to Rs. 3,500,000, for which 90% payment was received by the contractor. The plant is subject to 10% depreciation. The unused material at the site amounted to Rs. 220,000 at the end of June 2024.

Required:

- A) Prepare a contract account showing the position at the end of the year and the proportion of profit that would be taken into the profit and loss account for the year ended on 30 June 2024.
B) Prepare the Contractee account as of 30 June 2024.

Solution

Step 1: Prepare Contract Account for the period ended 30 June 2024

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Material purchased	1,200,000	By Work certified	3,500,000
To Material issued from stores	300,000	By Material unused (closing)	220,000
To Wages	900,000		
To Plant purchased	1,000,000		
To Overhead Costs	250,000		



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To Administrative Salaries	150,000		
To Depreciation on Plant (10% for 2 months? Plant purchased in May – assume from May to June 2 months)	16,667		
To Notional Profit c/d (balancing)	703,333		
Total	3,720,000	Total	3,720,000

Depreciation calculation: Plant purchased for Rs. 1,000,000. Depreciation rate 10% per annum. For 2 months (May, June) = $1,000,000 \times 10\% \times 2/12 = 16,667$.

Notional Profit = (Work certified + closing material) – (all costs) = $(3,500,000 + 220,000) - (1,200,000 + 300,000 + 900,000 + 1,000,000 + 250,000 + 150,000 + 16,667) = 3,720,000 - 3,016,667$? Wait compute sum of costs: $1,200k + 300k = 1,500k$; $+900k = 2,400k$; $+1,000k = 3,400k$; $+250k = 3,650k$; $+150k = 3,800k$; $+16,667 = 3,816,667$. That exceeds 3,720,000? Something is wrong. Let's recalc carefully.

Total debits (without notional profit) = material purchased 1,200,000 + issued from stores 300,000 = 1,500,000; wages 900,000 = 2,400,000; plant 1,000,000 = 3,400,000; overhead 250,000 = 3,650,000; admin salaries 150,000 = 3,800,000; depreciation 16,667 = 3,816,667. Total credits = work certified 3,500,000 + unused material 220,000 = 3,720,000. So there is a debit excess of 96,667 – meaning a loss. But construction contracts usually show notional profit. Perhaps plant is not entirely consumed; it's an asset. In contract accounts, plant is shown as an asset, not expensed fully. The correct treatment: Plant purchased is shown as asset, and only depreciation is charged. So the debit side should NOT include the full plant cost of 1,000,000; only depreciation. Let's correct.

Revised Contract Account:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Material purchased	1,200,000	By Work certified	3,500,000
To Material issued from stores	300,000	By Material unused (closing)	220,000
To Wages	900,000	By Plant at site (cost less dep)	983,333
To Overhead Costs	250,000		
To Administrative Salaries	150,000		
To Depreciation on Plant	16,667		
To Notional Profit c/d (balancing)	1,686,666		
Total	4,503,333	Total	4,503,333



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But that gives notional profit too high. Let's re-evaluate. The work certified is only 3,500,000, while total costs (excluding plant asset) are $1,200k + 300k + 900k + 250k + 150k + 16.667k = 2,816,667$. Then plus closing material 220,000 and plant value 983,333 = total credit 4,703,333? I'm mixing. Let's do it properly.

Standard format for Contract Account (for a single period):

Debit side: All costs incurred (materials, wages, overheads, admin, depreciation, etc.)

Credit side: Work certified (value of work done) + Work uncertified (if any) + Closing stock of materials + Plant at site (net book value)

Here, work certified = 3,500,000. No uncertified work mentioned. Closing material = 220,000. Plant at site = cost 1,000,000 – depreciation 16,667 = 983,333.

Total credit = $3,500,000 + 220,000 + 983,333 = 4,703,333$.

Total debit (without notional profit) = materials issued? Actually materials purchased 1,200,000 – but we also have material issued from stores 300,000. Total material consumed = 1,500,000? But we have closing material 220,000, so material used = $1,200,000 + 300,000 - 220,000 = 1,280,000$. That's the cost of material consumed. In debit side, we record "Materials consumed" = 1,280,000. Then wages 900,000, overhead 250,000, admin salaries 150,000, depreciation 16,667. Total = $1,280,000 + 900,000 + 250,000 + 150,000 + 16,667 = 2,596,667$.

Now, debit side (without profit) = 2,596,667. Credit side = 4,703,333. Difference = 2,106,666 (Notional Profit). That seems plausible.

Let's prepare a proper Contract Account.

Contract Account (for year ended 30 June 2024)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Materials consumed (1,200,000+300,000-220,000)	1,280,000	By Work certified	3,500,000
To Wages	900,000	By Plant at site (1,000,000 – 16,667)	983,333
To Overhead Costs	250,000	By Closing material	220,000
To Administrative Salaries	150,000		
To Depreciation on Plant	16,667		
To Notional Profit c/d	2,106,666		
Total	4,703,333	Total	4,703,333



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Now, the profit to be transferred to Profit & Loss account is computed as:

Notional Profit \times (Cash received / Work certified) \times (Work certified / Contract price) usually. A common formula for conservative approach: Profit to be taken = Notional Profit \times (Cash received / Work certified) \times (Work certified / Contract price) or simply a percentage based on completion. Since the contract is only partially complete (3.5M / 15M = 23.33%), typically a portion of notional profit is transferred.

Standard method: Profit to be credited to P&L = Notional Profit \times (Cash received / Work certified) \times (Work certified / Contract price)
= 2,106,666 \times (3,150,000 / 3,500,000) \times (3,500,000 / 15,000,000)
= 2,106,666 \times 0.9 \times 0.23333
= 2,106,666 \times 0.21 = 442,400 approximately.

Alternatively, many textbooks use: Profit transferred = 2/3 \times Notional Profit \times (Cash received/Work certified) when contract is less than 25% complete. Let's use simple: 2,106,666 \times (3,150,000/3,500,000) \times 1/3? Many variations. For simplicity, we will compute as:

Profit to P&L = Notional Profit \times (Cash received / Work certified) \times (Work certified / Contract price)

Cash received = 90% of 3,500,000 = 3,150,000.

So = 2,106,666 \times (3,150,000/3,500,000) \times (3,500,000/15,000,000)

= 2,106,666 \times 0.9 \times 0.23333 = 2,106,666 \times 0.21 = 442,399.86 \approx 442,400.

The remaining profit (2,106,666 – 442,400 = 1,664,266) is transferred to Reserve for unrealized profit (shown in balance sheet as deduction from work-in-progress).

Step 2: Contractee Account (Shazeb Manufacturing Company)

Contractee Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
June 30	To Balance c/d (amount due)	3,500,000	June 30	By Bank (90% received)	3,150,000
				By Balance c/d (retention)	350,000
Total		3,500,000	Total		3,500,000

The retention amount (10% of certified work) = 350,000 will be shown as a debtor (or retention receivable) in the balance sheet.



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Question 2

Asif Beverage Industries has been operating since 2020. The capital of the company amounted to Rs. 30,000,000, comprising 200,000 ordinary shares of Rs. 100 each and 200,000 10% preferred shares of Rs. 50 each. In the past, it had issued 100,000 ordinary shares at a par value of Rs. 100 each.

The company had performed well in the past years. Now it has invited applications for the issuance of 50,000 ordinary shares at Rs. 110 each. The applications were received for all the shares which were allotted to the subscribers by the end of June 2024.

Required:

- Record the above transactions in the books of Accounts.
- Present equity section of the Balance Sheet.

Solution

First, understand the capital structure:

Authorized capital (given as "capital of the company amounted to Rs. 30,000,000" – that is authorized? Actually it says "the capital of the company amounted to Rs. 30,000,000, comprising 200,000 ordinary shares of Rs. 100 each and 200,000 10% preferred shares of Rs. 50 each." That is the authorized capital. But issued so far: 100,000 ordinary shares at par. So issued ordinary share capital = $100,000 \times 100 = 10,000,000$. Preferred shares not yet issued? Not stated. They only mention issuance of 50,000 ordinary shares now.

Now, new issue: 50,000 ordinary shares at Rs. 110 each (premium of Rs. 10 per share). Total amount = $50,000 \times 110 = 5,500,000$. This includes share capital $50,000 \times 100 = 5,000,000$ and securities premium = $50,000 \times 10 = 500,000$.

Journal Entries

No.	Particulars	Debit (Rs.)	Credit (Rs.)
1	Bank A/c	5,500,000	
	To Share Application & Allotment A/c		5,500,000
	(Being application money received for 50,000 shares @ Rs.110)		
2	Share Application & Allotment A/c	5,500,000	
	To Ordinary Share Capital A/c		5,000,000
	To Securities Premium A/c		500,000



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(Being allotment made and amount transferred)

Now, the previous issued shares: 100,000 ordinary shares at par = 10,000,000. No entry needed now.

Equity Section of Balance Sheet as at 30 June 2024

Shareholders' Equity

Particulars	Amount (Rs.)
Authorized Capital:	
200,000 Ordinary shares of Rs. 100 each	20,000,000
200,000 10% Preferred shares of Rs. 50 each	10,000,000
Issued and Subscribed Capital:	
150,000 Ordinary shares of Rs. 100 each (100,000+50,000)	15,000,000
(Note: Preferred shares not issued yet)	
Reserves and Surplus:	
Securities Premium (from new issue)	500,000
Total Shareholders' Equity	15,500,000

Note: The company also has retained earnings (not provided). Only equity components given are these.

Question 3

Global Manufacturing Company Ltd was registered with an authorized capital of Rs. 10,000,000 divided into 100,000 common shares of Rs. 100 each. At the year ended 31 December 2024 the following trial balance was extracted.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Capital Stock		3,000,000
Premium on capital stock		300,000
Opening Stock	520,000	
Sales		4,250,000
Purchases	2,500,000	
Wages (Production Staff)	120,000	
Discount allowed	8,400	



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Discount received		6,300
Insurance for two years	18,600	
Salaries	185,000	
Rent	120,000	
General expenses	18,500	
Utility expenses	60,000	
Sundry creditors		320,000
Advertisement expenses	38,000	
Bonus to marketing staff	100,000	
Plant and Machinery	2,405,000	
Furniture	1,210,000	
Reserves		250,000
Sundry Debtors	750,000	
Loan from executive director		200,000
Cash at Bank	72,800	
Sundry expenses	200,000	
Total	8,326,300	8,326,300

Additional information:

1. Closing stock is valued at Rs. 430,000.
2. Depreciation: Plant and Machinery 15%, Furniture 10%.
3. Provision for doubtful debts at 2% on Sundry Debtors.
4. Provision for tax at 30% of net profit before tax.
5. An amount of Rs. 200,000 is to be added to the Reserve Account.
6. Proposed dividend is 10% of issued capital stock.

Required: Prepare Trading and Profit & Loss Account, Profit & Loss Appropriation Account, and Balance Sheet.

Solution

First, compute issued capital: Capital Stock Cr. 3,000,000. Shares of Rs. 100 each → issued shares = 30,000 shares. Premium on capital stock = 300,000, which means shares were issued at premium (Rs. 10 per share? $30,000 \times 10 = 300,000$). That's fine.

Step 1: Trading Account for year ended 31 Dec 2024



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Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	520,000	By Sales	4,250,000
To Purchases	2,500,000	By Closing Stock	430,000
To Wages (Production)	120,000		
To Gross Profit c/d	1,540,000		
Total	4,680,000	Total	4,680,000

Gross Profit = 4,250,000 + 430,000 – (520,000+2,500,000+120,000) = 4,680,000 – 3,140,000 = 1,540,000.

Step 2: Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Salaries	185,000	By Gross Profit b/d	1,540,000
To Rent	120,000	By Discount received	6,300
To General expenses	18,500		
To Utility expenses	60,000		
To Advertisement expenses	38,000		
To Bonus to marketing staff	100,000		
To Discount allowed	8,400		
To Insurance expense (1 year)	9,300		
To Sundry expenses	200,000		
To Depreciation:			
Plant & Machinery (2,405,000×15%)	360,750		
Furniture (1,210,000×10%)	121,000		
To Provision for doubtful debts (750,000×2%)	15,000		
To Net Profit before tax c/d	398,350		
Total	1,546,300	Total	1,546,300

Insurance expense: Paid for two years 18,600; one year expense = 9,300 (since year ended 31 Dec 2024). Prepaid insurance = 9,300 will be shown as asset.

Net Profit before tax = 1,540,000 + 6,300 – (sum of all expenses) = 1,546,300 – (185,000+120,000+18,500+60,000+38,000+100,000+8,400+9,300+200,000+360,750+121,000+15,000) = 1,546,300 – 1,235,950 = 310,350? Wait recal. Let's add all expenses:

Salaries 185,000 + Rent 120,000 = 305,000



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- General 18,500 = 323,500
- Utility 60,000 = 383,500
- Advertisement 38,000 = 421,500
- Bonus 100,000 = 521,500
- Discount allowed 8,400 = 529,900
- Insurance 9,300 = 539,200
- Sundry expenses 200,000 = 739,200
- Depreciation Plant 360,750 = 1,099,950
- Depreciation Furniture 121,000 = 1,220,950
- Provision for bad debts 15,000 = 1,235,950

Then Gross Profit + Discount received = 1,540,000 + 6,300 = 1,546,300.

Net profit before tax = 1,546,300 – 1,235,950 = 310,350.

But earlier I wrote 398,350 – that was a miscalculation. Correct is 310,350.

Step 3: Provision for Tax (30%)

Tax = 310,350 × 30% = 93,105.

Net Profit after tax = 310,350 – 93,105 = 217,245.

Step 4: Profit & Loss Appropriation Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Transfer to Reserve	200,000	By Net Profit after tax	217,245
To Proposed Dividend (10% of issued capital)			
Issued capital = 3,000,000; 10% = 300,000			
To Retained Earnings c/d	(balancing) –82,755? Actually 217,245 – 200,000 – 300,000 = –282,755 negative. That means insufficient profit. So dividend cannot be paid. In such case, no		



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	dividend is declared. Usually, company may not pay dividend if no profit. So we assume no dividend. Then appropriation:		
Revised:			
To Transfer to Reserve	200,000	By Net Profit after tax	217,245
To Retained Earnings c/d	17,245		
Total	217,245	Total	217,245

So proposed dividend is not provided due to insufficient profit.

Step 5: Balance Sheet as at 31 December 2024

Assets

Particulars	Amount (Rs.)
Non-current assets:	
Plant and Machinery (2,405,000 – 360,750)	2,044,250
Furniture (1,210,000 – 121,000)	1,089,000
Prepaid Insurance	9,300
Current assets:	
Closing Stock	430,000
Sundry Debtors (750,000 – 15,000)	735,000
Cash at Bank	72,800
Total Assets	4,380,350

Equities and Liabilities

Particulars	Amount (Rs.)
Shareholders' Equity:	
Capital Stock (issued)	3,000,000
Premium on Capital Stock	300,000
Reserves (250,000 + 200,000)	450,000
Retained Earnings (from appropriation)	17,245



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Total Equity	3,767,245
Non-current liabilities:	
Loan from executive director	200,000
Current liabilities:	
Sundry Creditors	320,000
Provision for Tax	93,105
Total Liabilities	613,105
Total Equities and Liabilities	4,380,350

Question 4

What do you understand by the term recapitalization of a company and what factors are kept in view for adopting a rationale of capital restructuring?

Answer

Recapitalization refers to the process of changing a company's capital structure – the mix of debt and equity – without changing the total amount of capital. It involves restructuring the company's debt and equity to make the capital structure more stable or optimal. Recapitalization may include:

- Converting debt into equity (debt-for-equity swap)
- Issuing new shares to pay off debt
- Buying back shares
- Changing the par value of shares
- Reducing or increasing the share premium

Factors for adopting capital restructuring (rationale):

1. **Improve financial stability:** If a company has too much debt, it may face high interest payments and risk of bankruptcy. Converting debt to equity reduces leverage.
2. **Take advantage of tax benefits:** Interest on debt is tax-deductible. A company may increase debt to reduce tax liability (if it has stable earnings).
3. **Enhance shareholder value:** Share buybacks increase earnings per share (EPS) by reducing the number of shares outstanding.
4. **Avoid hostile takeover:** By increasing debt and using the proceeds to buy back shares, management can increase its control (leveraged recapitalization).
5. **Adjust to changed business conditions:** If the company's profitability or risk profile changes, it may need to rebalance its capital structure.



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6. **Comply with regulatory requirements:** For example, a bank may need to increase its capital adequacy ratio by issuing more equity.
7. **Reduce cost of capital:** The weighted average cost of capital (WACC) can be minimized by choosing an optimal mix of debt and equity.
8. **Rescue a financially distressed company:** Creditors may agree to convert debt into equity to avoid liquidation (bail-in).
9. **Prepare for mergers or acquisitions:** A more flexible capital structure makes it easier to raise funds for acquisitions.
10. **Improve credit rating:** Reducing debt can improve the company's credit rating, lowering future borrowing costs.

Question 5

Write notes on the following:

a) Memorandum of Association

The Memorandum of Association is the fundamental charter or constitution of a company. It defines the scope of the company's activities and its relationship with the outside world. It contains the following clauses:

- **Name clause:** The name of the company (ending with "Limited" for public, "Private Limited" for private).
- **Registered office clause:** The state/territory where the registered office is located.
- **Object clause:** The main and ancillary objects for which the company is formed (most important).
- **Liability clause:** The liability of members (limited by shares, guarantee, or unlimited).
- **Capital clause:** The authorized share capital and its division into shares.
- **Subscription clause:** Declaration by subscribers to take shares.

A company cannot perform any act beyond the powers given in the Memorandum (ultra vires). It is a public document and can be altered only with special resolution and approval of regulatory authorities.

b) Articles of Association

The Articles of Association are the internal rules and regulations for the management of the company. They govern the day-to-day operations, rights of shareholders, powers of directors, conduct of meetings, voting procedures, transfer of shares, dividend policies, etc. The Articles are subordinate to the Memorandum. They can be altered by a special resolution of shareholders. If a



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company adopts Table A (or model articles) of the Companies Act, it need not have its own separate Articles.

c) Prospectus

A prospectus is a legal document issued by a public company inviting the public to subscribe to its shares or debentures. It contains all material information about the company: its history, management, financial statements, objects of the issue, risk factors, terms of issue, underwriting, listing details, etc. The purpose is to enable investors to make an informed decision. Any false statement in the prospectus makes the directors liable for damages. A private company does not issue a prospectus.

d) Certificate of Commencement of Business

This certificate is issued by the registrar of companies to a public company after it has fulfilled certain conditions (e.g., filing of prospectus or statement in lieu of prospectus, and receiving minimum subscription). It certifies that the company is entitled to commence business. A private company can commence business immediately after incorporation, without this certificate. For a public company, it is illegal to start business before obtaining this certificate.



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