

**Spring Semester 2009**  
**Advanced Financial Accounting (FIN 611)**  
**Assignment # 02**

**Total Marks= 30**

*Please read the following Instructions carefully before attempting the assignment solution.*

- Assignment # 02 covers lesson No.01 - 34
- Last date for submission of assignment is **11-06-2009**. It means you can submit your assignment till **12-06-2009, 12'O clock mid night**.
- You can consult the concerned topics from your lectures and handouts.
- Use black font colors only.
- Show complete working/ calculations to support your answers.
- Make sure that you have uploaded the Assignment before due date.
- No assignment will be accepted through E-mail after the due date.
- Compose your assignment in **MS-Office 2003** (MS WORD or MS EXEL). File created in any other version/format will not be accepted and marked **zero**.

***Cheating or copying of assignment from any source is strictly prohibited;  
No credit will be awarded to copied assignment.***

**Question # 1 (Maximum Marks = 20):**

During its accounting year ending on December 31, 2007 the Zeal Pak Company had the cash sales Rs. 280,000, the cost of goods sold Rs. 145,000 and the operating expenses of Rs. 50,000. The company paid the Rs. 5,000 interest on debentures and tax @ 35%. The company further reported that the debtors on January 01, 2007 was Rs. 110,000, cash received from debtor during the year Rs.60,000 and the debtor at December 31<sup>st</sup> 2007 was Rs. 270,000.

At the year ending on 31<sup>st</sup> December, 2006 the company had the net Profit after tax Rs. 155,000 and 20,000 ordinary shares in issue. On January 1, 2007, Zeal Pak Co. issued 10% preference shares of Rs. 150,000. On June 30, 2007 it proposed to make a 1 for 5 rights issue at a price of Rs. 4 per share. The market value of existing shares on June 30, 2007, before the issue is made, was Rs. 6.

**You are required to:**

- a) Prepare the Income statement for the year ending on 31<sup>st</sup> December 2007.
- b) Profit available for distribution to the ordinary share holder at the year ending on 31<sup>st</sup> December 2007.
- c) Calculate theoretical ex-rights price
- d) Identify the bonus element in rights issue
- e) Calculate the weighted average number of shares in the year 2006 and 2007.
- f) Earning per share for the year 2007 and its corresponding figure for 2006.

**Question # 2(Maximum Marks = 10):**

Aftab Company limited realized itself as a social responsible company and decided to construct an employees housing society for its employees working in the company, which was destroyed by an earth quake few years ago in the region. It was estimated by construction experts that this project would take three years to complete and capital needed for the construction would not be less then Rs. 3 million. For the purpose of safety, the Aftab limited borrowed Rs. 3.4 million from different sources and used the extra 0.4 million for the purpose of working capital needs.

Aftab Company Limited borrowed the loans as the followings:

Loan from American Bank: Rs. 1 million at 7% per annum

Loan from MCB: Rs. 1.5 million at 6% per annum

Loan from Mezaan Bank: 0.9 million at 8% per annum

At the initial stage of the project, there were idle funds of Rs. 1 million which the Aftab Limited invested for a period of nine months. The income from this investment was Rs. 60,000.

If the Aftab limited adopted Allowed alternative treatment then:

1. How the Aftab Company Limited would it treat the borrowing costs.
2. How would it capitalize the borrowing cost?
3. What would be the treatment of the investment income?