**KARACHI UNIVERSITY BUSINESS SCHOOL**
**UNIVERSITY OF KARACHI**
**FINAL EXAMINATION, DECEMBER 2009; AFFILITED COLLEGES**
**FINANCIAL ACCOUNTING BA (M) – 522**
**MBA – II**

Date: 09th January 2010 Max. Marks: 60
Max. Time: 3 Hours

**Instruction: Attempt any four questions. All questions carry equal marks**

Q. # 1 The December 31, 2007, balance sheet of Muneeb Auto Glass reports the following:

| | |
|---|---|
| Accounts Receivable…………………………………….. | Rs. 265,000 |
| Allowance for Doubtful Accounts (credit balance)…....... | 7,100 |

At the end of each quarter, Muneeb Auto Glass estimated doubtful-account expense to be 2 percent of credit sales. At the end of the year, the company age its accounts receivable and adjusts the balance in Allowance for Doubtful Accounts to correspond to the aging schedule. During 2008 Muneeb completes the following selected transactions:

Jan. 31 Wrote off as uncollectible the Rs. 955 account receivable from Shahid Company and the Rs. 3,287 account receivable from Waris.
Mar. 31 Recorded doubtful-account expense based on credit sales of Rs. 130,000
May 2 Received Rs. 1,000 from Danish after prolong negotiations with Danish's attorney. Muneeb has no hope of collecting the remainder.
June 15 Wrote of as uncollectible the Rs. 1120 accounts received from Luqman.
June 30 Recorded doubtful-account expense based on credit sales of Rs. 166,000.
July 14 Made a compound entry to write off the following uncollectible accounts:
Harris, Rs. 766; Graphics Unlimited, Rs. 2,413, and Bashir, Rs. 134
Sep. 30 Recorded doubtful-account expense based on credit sales of Rs. 141,400
Nov. 22 Wrote off the following account receivable as uncollectible: Mubashir Corp., Rs. 1,345; Blocker, Inc, Rs. 2,109; and Main Street Plaza Rs. 755
Dec 31 Recorded doubtful-account expense based on the following summary of the aging of accounts receivable:

| **Total** | **Age of Accounts** | | | |
|---|---|---|---|---|
| **Balance** | **1-30 Days** | **31-60 Days** | **61-90 Days** | **Over 90 Days** |
| Rs. 196,600 | Rs. 161,500 | Rs, 86,000 | Rs. 34,000 | Rs. 151,100 |
| Estimated Percentage Uncollectible | 0.2% | 0.5% | 4.0% | 50.0% |

Dec. 31 Made the closing entry for Doubtful-Account Expense for the entire year.

**Required:**

1. Record the transactions in the general journal.
2. Open the Allowance for Doubtful-Accounts, and post entries affecting that account. Keep a running balance.
3. Most companies report two-year comparative financial statements. If Muneeb's Account Receivable balance is Rs. 296,600 at December 31, 2007, show how the company will report its account receivable in a competitive balance sheet for 2007 and 2008.

Q. # 2 The balance sheet of Hamid Corporation at December 31, 2006, reported the following stockholders' equity:

| | |
|---|---|
| Paid in Capital: | |
| Common stock, Rs. 10 par, 100,000 shares | |
| Authorized, 20,000 shares issued…………………………… | Rs. 200,000 |
| Paid in capital in excess of par-common…………………… | 300,000 |
| Total paid-in capital………………………………………… | 500,000 |
| Retained earnings…………………………………………… | 190,000 |
| Total stockholders' equity………………………………….. | Rs. 690,000 |

During 2007 Hamid completed the following selected transactions:

| | |
|---|---|
| Feb. 7 | Discovered that income tax expense of 2006 was understand by Rs. 24,000. Recorded a prior-period adjustment to correct the error |
| Apr. 30 | Declared a 10 percent stock dividend on the common stock. The market value of Hamid common stock was Rs. 24 per share. The record date was May 21, with distribution set for June 5. |
| June 5 | Issued the stock divided shares. |
| July 29 | Purchased 2,000 shares of the company's own stock at Rs. 21 per share. |
| Nov. 13 | Sold 400 shares of treasury common stock for Rs. 22 per share. |
| Nov. 27 | Declared a Rs. 0.30 per share divided on the common stock outstanding. The date of record was December 17 and the payment date was January 7, 2008. |
| Dec. 31 | Closed the Rs. 62,000 credit balance of Income Summary to Retained Earnings. |

**Required:**

1. Record the transactions in the general journal
2. prepare a retained earning statement at December 31, 2007
3. Prepare the stockholders' equity section of the balance sheet at December 31, 2007.

Q # 3 The income statement and additional data of Naheed Milling Company follow:

**NAHEED MILLING COMPANY**
**INCOME STATEMENT**
**YEAR ENED SEPTEMBER 30, 2008**

| | | |
|---|---|---|
| Revenues: | | |
| Sales Revenue ……………………………… | Rs. 229,000 | |
| Dividend revenue ………………………….. | 8,000 | Rs. 237,000 |
| Expenses: | | |
| Cost of goods sold …………………………. | 103,000 | |
| Salaries expense …………………………… | 45,000 | |
| Depreciation expense ……………………... | 29,000 | |
| Advertising expense ………………………. | 11,000 | |
| Interest expense …………………………… | 2,000 | |
| Income tax expense ………………………. | 9,000 | Rs. 199,000 |
| Net Income ……………………….. | | Rs. 38,000 |

**Additional data:**

a. Collections from customers are Rs. 7,000 more than sales.
b. Payments to supplies are Rs. 9,000 less than the sum of cost goods sold plus advertising expense.
c. Payments to employees are Rs. 1,000 more than salary expense.
d. Dividend revenue, interest expense, and income tax expense equal their cash amounts.
e. Acquisition of plant assets in Rs. 116,000. of this amount, Rs. 101,000 is paid in cash, Rs. 15,000 by signing a note payable.
f. Proceeds from sale of land, Rs. 14,000
g. Proceeds from issuance of common stock, Rs. 30,000
h. Payment of long-term note payable, Rs. 15,000
i. Payment of dividends, Rs. 11,000.
j. Increase in cash balance, Rs.?

Prepare Naheed Milling Company's statement of each flows and accompanying schedule of non-cash investing and financing activities. Report operating activities by the direct method

Q # 4 On January 2, 2007 Waqar Cruises sold 10-years term bonds with a face value of Rs. 250,000. The bonds had a stated interest rate of 13%, payable semiannually on January 2 and July 1. the bonds were sold to yield 15%, and as a result were issued at a price of Rs. 224,513.

a. Prepare the general entry to record the issuance of the bond.
b. Show how the bonds would be disclosed on the balance sheet immediately after their issue.
c. The entry to record the interest payment on Jul 1, 2007. Assume that straight-line amortization used.
d. show how the bonds would be disclosed on the balance sheet immediately after the interest payment on July 1, 2007.

Q # 5 The Yasir Company acquired an asset that had a cost of Rs. 130,000. The asset is being depreciated over five years using the sum-of-the-years-digits methods of depreciation. The asset has an estimated salvage value of Rs. 10,000. Make the general entry to record the disposition of the asset under each of the following independent assumptions:

a. At the end of the third year, the asset was sold for Rs. 38,000.
b. At the end of the second year, the asset was traded in for a similar one. The new asset had a list price of Rs. 150,000. The firm received a trade-in allowance of Rs. 60,000. Assume that the trade-in allowance represents the fair market value of the old asset.
c. At the end of the sixth year, the asset was retired and given to a scrape dealer in exchange for Rs. 1,000.
d. At the end of the third year, the asset was traded in for a similar one with a list price of Rs. 80,000. The firm paid Rs. 62,000 cash. The trade-in allowance represented the fair market value of the old asset.

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**FINAL EXAMINATION, JUNE & JULY 2009; AFFILITED COLLEGES**
**FINANCIAL ACCOUNTING BA (M) – 522**
**MBA – II**

Date: June 27, 2009 Max. Marks: 60
Max. Time: 3 Hours

Instructions: Attempt all questions.

Q1 (a) At the end of each year, a company uses the simplified balance sheet approach to estimated bad debts. On December 31, 1991, it has outstanding accounts receivable of $ 176, 600 and estimates that 3.5% will be uncollectible. (a) Give the entry to record bad debts expense for 1991 under the assumption that the Allowance for Doubtful Accounts had a $ 1, 470 credit balance before the adjustment. (b) Give the entry under the assumption that the Allowance for Doubtful Accounts has a $ 1,235 debit balance before the adjustment. **06**

Q1 (b) Why does the Bad Debts Expense account usually not have the same adjusted balance as the Allowance for Doubtful Accounts. **02**

Q1 (c) Why does the direct write-off method of accounting for bad debts commonly fail to match revenues and expenses. **02**

Q2 (a) When Anne Blair arrived at her store on the morning of January 29, she found empty shelves and display racks; thieves had broken in during the night and stolen the entire inventory. Blair's accounting records showed that she had inventory costing $ 55,800 on January 1. From January 1 to January 29, she had made net sales of $ 200,000 and net purchases of $ 142,800. the gross profit during the past several years had consistently averaged 30% of net sales. Blair wishes to file an insurance claim for the theft loss. You are to use gross profit method to estimate the cost of her inventory at the time of the theft. Show computations. **06**

Q2 (b) Westlake Accessories uses a periodic inventory system but needs to determine the approximate amount of the inventory at the end of each month without taking a physical inventory. From the following information, you are to estimate the cost of the goods sold and the cost of the July 31 inventory by the retail method of inventory valuation. **04**

| | **Cost Price** | **Retail Selling Price** |
|---|---|---|
| Inventory of merchandise, June 30 …………. | $ 264,800 | $ 400,000 |
| Purchase during July…………………………. | 170,400 | 240,000 |
| Goods available for sale during July…………. | $ 435,200 | $ 640,000 |
| Net sales during July…………………………. | | $ 275,200 |

Q3 (a) On January 2, 1991, Kelly Camera Shop disposed of a machine that cost $ 84,000 and had been depreciated $ 45,250. Present the general entries to record the disposal under each of the following unrelated assumptions: **06**

a. The machine was sold for $ 32,500.
b. The machine was trade in a new machine of like purpose having a $ 117,000 cash price. A $ 40,000 trade-in Allowance was received, and the balance was paid in cash.
c. A %$ 30,000 trade-in allowance was received for the machine on a new machine of like purpose having a $ 117,000 cash price. The balance was paid in cash.
d. The machine was traded for vacant land adjacent to the shop to be used as parking lot. The land had a fair value of $ 75,000 and Kelly paid $ 25,000 cash in addition to giving the seller the machine.

Q3 (b) On January 1, 1991, Lake Excavating Services Purchased a trencher for $ 500,000. The machine was expected to last five years and has a salvage value of $ 50,000. Calculate depreciation expense for 1992, using (a) the straight-line method and (b) the declining balance method, assume rate of depreciation 20%. **04**

Q4 (a) Explain the immediate effects, if any, of each of the following transactions on a company's net earnings per share: **05**

a. Split the common stock 3-for-1.
b. Realized a gain from the sale of a discontinued operation.
c. Switched from an accelerated method of depreciation to the straight line method, resulting in a reduction in the Accumulated Depreciation account.
d. Declared and a paid a cash dividend on common stock.
e. Declared and distributed a stock dividend on common stock.
f. Acquired several thousand shares of treasury stock.

Q4 (b) Tarrytown Corporation has a total of 80,000 shares of common stock outstanding and no preferred stock. The stockholders' equity at the end of the current year amounts of $ 5 millions and the market value of the stock is $ 66 per share. At the year end, the company declares a 10% stock dividend-one share for each 10 shares held. If all parties concerned clearly recognize the nature of the stock dividend, what should you expect the market price per share of the common stock to be on the ex-dividend date? **05**

Q5 (a) During the current year, Grafton Labs made cash sales of $ 250,000and credit sales f $ 490,000. During the year, accounts receivable decreased by $ 32,000.

a. Compute for the current year the amount of: **02**
   1) Net sales reported as revenue in the income statement.
   2) Cash received from collecting accounts receivable.
   3) Cash received from customers.
b. Write a brief statement explaining why cash received from customers differs from the amount of net sales. **02**

Q5 (b) An analysis of the marketable Securities controlling account of Dixie Mills, Inc., shows the following entries during the year: **05**

| | |
|---|---|
| Balance, Jan.1 ……………………. | $ 390,000 |
| Debit entries ……………………… | 125,000 |
| Credit entries …………………….. | (140,000) |
| Balance, Dec. 31 …………………. | $ 375,000 |

In addition, the company's income statement includes a $ 27,000 loss on sales marketable securities. None of the marketable securities is considered a cash equivalent.

Computer the amounts that should appear in the statement of cash flows as:

a. Purchases of marketable securities
b. Proceeds from sales of marketable securities.

Q6 (a) Tyco Toys is a manufacturer of toys and children's products. The following are selected items appearing in a recent balance sheet (dollar amounts are in millions): **07**

| | |
|---|---|
| Cash and short-term investments……………… | $ 47.3 |
| Receivables……………………………………. | 159.7 |
| Inventories…………………………………….. | 72.3 |
| Prepaid expenses and other current assets…….. | 32.0 |
| Total current liabilities………………………... | 130.1 |
| Total liabilities………………………………… | 279.4 |
| Total stockholders' equity…………………….. | 344.0 |

a. Using the information above, computes the amounts of Tyco's (1) quick assets and (2) total current assets.
b. Compute the company's (1) quick ratio, (2) current ratio, and (3) working capital. (Round ratios to one decimal place).
c. Discuss whether the company appears solvent from the viewpoint of a short-term creditor.

Q6 (b) Distinguished between the terms classified, comparative, and consolidated as they apply to financial statements. May a given set of financial statements have more than one of these characteristics? **03**

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**FINAL EXAMINATION, JANUARY 2009; AFFILITED COLLEGES**
**FINANCIAL ACCOUNTING BA (M) – 522**
**MBA – II**

Date: January 15, 2009 Max. Marks: 60
Instruction: Attempt any 5 questions. Max. Time: 3 Hours

Q1 (a) Explain the relationship between the matching principle and the need to estimate uncollectible accounts receivable? 4

Q1 (b) The credit manager of Olympic Sporting Goods has gathered the following information about the company's accounts receivable and credit losses during the current year: 8

| | | |
|---|---|---|
| Net credit sales for the year | | $ 3,000,000 |
| Accounts receivable at year-end | | 360,000 |
| Uncollectible accounts receivable: | | |
| Actually written off during the year | $ 43,650 | |
| Estimated portion of year-end receivable expected to Prove uncollectible (per aging schedule) | 18,000 | 61,650 |

**Required:**
Prepare one journal entry summarizing the recognition of uncollectible accounts expense for the entire year under each of the following independent assumptions:

a. Uncollectible accounts expense is estimated at an amount equal to 1 ½ % of the net credit sales.
b. Uncollectible accounts expense is recognized by adjusting the balance in the Allowance for Doubtful Accounts to the amount indicated in the year-end aging schedule. ;the balance in the allowance account at the beginning of the current year was $ 15,000. (Consider the effect of the write-offs during the year on the balance in the Allowance for Doubtful Accounts)
c. The company uses the direct write-off method of accounting for uncollectible accounts.

Q 2 (a) Under what circumstances might a company write down its inventory to carrying value below cost? 4

Q2 (b) A perpetual Inventory system is used by Black Hawk, Inc., and separate inventory records are maintained for each type of product in stock. The following transactions show beginning inventory, purchases and sales of CT-300, a cellular telephone, for the month of May: 8

| | | | |
|---|---|---|---|
| May | 1 | Balance on hand, 20 units, cost $ 40 each | $ 800 |
| May | 5 | Sales, 8 units, sales price $ 60 each | 480 |
| May | 6 | Purchase, 20 units, cost $ 45 each | 900 |
| May | 21 | Sale, 10 units, sales price $ 60 each | 600 |
| May | 31 | Sale, 15 units, sales price $ 65 each | 975 |

**Required:**
a. Compute cost of goods sold cost of merchandise inventory (ending) under FIFO method.
b. Prepare general journal entries to record the purchases and sales in May. Assume that all transactions were on account.
c. Explain why the company's choice of the FIFO method may result in a more accurate presentation of its balance sheet than income statement.

Q3 (a) what is the distinction between a capital expenditure and revenue expenditure? 4

Q3 (b) Ogilvie Construction traded in a used crane on a similar new one. The original cost of the old crane was $ 60,000, and in both Ogilvie's accounting records and income tax returns the accumulated depreciation amounted to $ 48,000. the new crane cost $ 75,000, but Ogilvie was given a trade-in allowance of 4 15,000. 8

**Required:**
a. What amount of cash must Ogilvie pay?
b. Compute the gain or loss that would be reported on disposal of the old crane under generally accepted accounting principles.
c. Record journal entry for exchange of crane.

Q4 (a) Distinguish between a stock split and a stock dividend. Is there any reason for the difference in accounting treatment of these two events? 4

Q4 (b) The net income of Tiny Tot Furniture, Inc., amounted to $ 1,850,000 for the current year> 8

**Required:**

a. Compute the amount of earning per share assuming that the shares of capital stock outstanding throughout the year consisted of:

(1) 200,000 shares of $ 1 par value preferred stock and no preferred stock.

(2) 100,000 shares of 8% $ 100 par value preferred stock and 300,000 shares of $ 5 par value common stock. The preferred stock has a call price of $ 105 per share.

b. Is the earnings per share figure computed in part (2) considered to the basic or diluted? Explain.

Q5 (a) Give two examples of cash receipts and two examples of cash payments that fit into each of the following classifications: 4

(1) Operating activities.
(2) Investing activities.
(3) Financing activities

Q5 (b) The following data are taken from the income statement and balance sheet of Ali Night Pharmacies Inc.: 8

| | **Dec. 31 2001** | **Jan. 1 2001** |
|---|---|---|
| **Income statement:** | | |
| Net income | $ 400,000 | |
| Depreciation Expense | 120,000 | |
| Amortization of Intangible Assets | 40,000 | |
| Gain on sale on plant Assets | 80,000 | |
| Loss on Sale of Investments | 35,000 | |
| **Balance Sheet:** | | |
| Accounts Receivable | | $ 380,000 |
| Inventory | | 575,000 |
| Prepaid expenses | | 10,000 |
| Accumulated payable (to merchandise suppliers) | | 410,000 |
| Accrued Expenses Payable | | 155,000 |

**Required:**

Using this information prepare a partial statement of cash flows for the year ended December 21, 2001, showing the computation of net cash flows from operating activities by the indirect method.

Q6 (a) Identify four ratios or other analytical tools used to evaluate profitability. Explain briefly how each is computed. 4

Q6 (b) Selected financial data for Vashon's, a retail store, appear as follows: 8

| | **2001** | **2000** |
|---|---|---|
| Sales (all on account) | $ 750,000 | $ 600,000 |
| Cost of goods sold | 495,000 | 408,000 |
| Average inventory during the year | 110,000 | 102,000 |
| Average receivables during the year | 150,000 | 100,000 |

a. Compute the following for the both years:

i. Gross profit percentage
ii. Inventory turnover
iii. Accounts receivable turnover

b. Comment on favorable and unfavorable trends.

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**FINAL EXAMINATION, JUNE – JULY 2008; AFFILITED COLLEGES**
**FINANCIAL ACCOUNTING BA (M) – 522**
**MBA – II**

Marks: 60 Times: 3 Hours
Date: January 15, 2009

Instruction: Attempt any five questions.

Q.1 (a) In making the annual adjusting entry for uncollectible accounts, a company may utilize balance sheet approach to make the estimate or it may use an income statement approach. Explain these two alternative approaches. 04

(b) The income statement approach to estimating uncollectible accounts expense is used by Burgess Wholesale. On March 31 the firm had account receivable in the amount of $ 630,000. The Allowance for Doubtful Accounts had a credit balance of $ 3,950. The controller estimated that uncollectible accounts expense would amount to one-half of 1% of the $ 5,200,000 of net sales made during March. This estimate was entered in the account by adjusting entry on March 31.
On April 12, an account receivable from Conrad Stern of $ 3,110 was determined to be worthless and was written off. However, on April 24, Stern won several thousand dollars on TV game show and immediately paid the $ 3,110 past-due account.
**Required**
Prepare journal entries of above transactions. 08

Q.2 (a) Under what circumstances do generally accepted accounting principle permit the use of an inventory cost flow assumption? Must a flow assumption closely parallel the physical movement of the company's merchandise? 04

(b) On January 15, 1994, California Irrigation sold 2,000 Rain Master-30 oscillating sprinkler heads to Rancho Landscaping. Immediately prior to this sale, California's perpetual inventory records for this sprinkler head included the following cost layers:

| Purchase data | Quantity | Unit Cost | Total Cost |
|---|---|---|---|
| December 12, 1993 ……… | 1,200 | $ 18.50 | $ 22,200 |
| January 9, 1994 …………. | 1,800 | 19.00 | 34,200 |
| | 3,000 | | $56,400 |

**Required**
Prepare separate journal entry to record the cost of good sold relating to the January 15, sale of 2000 Rain Master-30 sprinkler heads, assuming that California Irrigation uses:
(1) Specific identification (1000 units sold were purchased on December 12 and remaining 1000 purchased on January 9.
(2) Average cost
(3) FIFO
(4) LIFO 08

Q.3 (a) (i) Does the accounting principles of consistency require a company to use the same method of depreciation for of all its plant assets? 04
(ii) Is it acceptable for a corporation to use different depreciation methods in its financial statements and its income tax returns?

(b) Grain Products uses straight-line depreciation on all its depreciable assets. The accounts are adjusted and closed at the end of each calendar year. On January 4 ,1992, the corporation purchase machinery for cash at a cost of $80,000. Useful life was estimated to be 10 years and residual value $12,000. Depreciation for partial years in recorded to the nearest full month.
In 1994, after almost 3 years of the experience with the equipment, management decided that the estimated life of the equipment should be revised from 10 years to 6 years. No change was made in the estimate residual value. The revised estimate of useful life was decided upon prior to recording depreciation for the period ended December 31, 1994.

**Required**
Prepare journal entries in chronological order for the above events, beginning with the purchase of the machinery on January 4, 1992. Show separately the depreciation for 1992, 1993, and 1994.

Q.4 (a) If the Retained Earnings accounts has a debit balance, how is it presented in the balance sheet and what is it called? 02

(b) Kato Manufacturing issued 45,000 shares of common stock in exchange for land with a fair market value of $790,000. Prepare the journal entry to record this transaction under each of the following independent assumptions: 10

a. The stock has a $2 par value
b. The stock has a $10 par value
c. The stock has no par value or stated value

Q.5 (a) Identify three factors that may causes net income to differ from net cash flow from operating activities. 03

(b) The accounting staff of Carolina Crafts, Inc., has assembled the following information for the year ended December 31, 1994. 09

| | |
|---|---|
| Cash and cash equivalents, beginning of year…………………… | $45,200 |
| Cash and cash equivalents, end of year …………………………. | 64,200 |
| Cash paid to acquire plant assets ………………………………... | 21,000 |
| Proceeds from short-term borrowing ……………………………. | 10,000 |
| Loans to made borrowing ………………………………………… | 5,000 |
| Collections on loans (excluding interest) ………………………… | 4,000 |
| Interest and dividends received ………………………………….. | 17,000 |
| Cash received from customers …………………………………… | 795,000 |
| Proceeds from sales of plants assets …………………………….. | 9,000 |
| Dividends paid …………………………………………………… | 65,000 |
| Cash paid to suppliers and employees …………………………… | 635,000 |
| Interest paid ………………………………………………………. | 19,000 |
| Income tax paid ………………………………………………….... | 71,000 |

**Required**
Prepare cash flow statement under the proper classification of operating activities, investing activities and financing activities. Use direct method to calculate cash generated from operating activities.

Q6. Shown below are selected financial data for Mondo Corporation and Global, Inc., at the end of the current year.

| | **Mondo Corporation** | **Global Inc.** |
|---|---|---|
| Net sales (all on credit)……………………. | $ 1,440,000 | $ 1,190,000 |
| Cost of goods sold…………………………. | 1,260,000 | 825,000 |
| Cash ………………………………………. | 36,000 | 70,000 |
| Accounts Receivable (net) ………………... | 180,000 | 140,000 |
| Inventory …………………………………. | 504,000 | 165,000 |
| Current liabilities…………………………. | 240,000 | 150,000 |

Assume that the year-end balance shown for accounts receivable and for inventory also represent the average balance of these accounts throughout the year.

a. For each company, compute the following: 08
   i. Working capital
   ii. Current ratio.
   iii. Quick ratio.
   iv. Number of times inventory turned over during the year and the average number of days required to turnover inventory.
   v. Number of times accounts receivable turned over during the year and the average number of days required to collect accounts receivable. (Round to the nearest day)
   vi. Operating cycle.

b. From the view of point of a short-term creditor, comment upon the quality of each company's working capital. To which company would you prefer to sell $ 50,000 in merchandise on a 30-day open account? 04

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**FINAL EXAMINATION, SPRING - 2006; AFFILITED COLLEGES**
**FINANCIAL ACCOUNTING BA (M) – 522**
**MBA – II**

**Date: July 04, 2006**
**Max. Marks: 48** **Time: 2:45 Hours**

## SUBJECTIVE PAPER

**Instruction:**

Attempt any FOUR (04) questions. All questions carry equal marks. Show necessary computation it will be a part of answer.

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Q.No.2. Below is a partial list of the accountant or the Danish Company. Referring to these figures, where appropriate, answer the following questions:

| | | | |
|---|---|---|---|
| Account payable | Rs. 28,000 | Investment, long term | Rs. 20,000 |
| Account receivable | 45,000 | Long term debt | 30,000 |
| Interest payable | 12,000 | Notes receivable, due in 12 months | 5,000 |
| Cash | 30,000 | Danish, capital | 45,000 |
| Current portion of long-term debt | 30,000 | Sales | 400,000 |
| Inventories | 60,000 | | |

**Required**

a. What is the current working capital?

b. What is the current ratio?

c. For this question, only assume that the company has a current ratio of 3:1. if the company purchased Rs. 5,000 of inventory on account, what effect (that is, increase, decrease, or no effect) would this transaction have on:

1. Working capital
2. Current Ratio

Q.No.3. The Razaq Corporation balance sheet on December 31, 2004, has the following temporary investment and receivables:

| | | |
|---|---|---|
| Temporary Investment (at cost equals market value)…………….. | | Rs. 100,000 |
| Notes Receivable………………………………………………….. | | 25,000 |
| Account Receivable…………………………..... | Rs. 350,000 | |
| Less: Allowance for uncollectible Accounts…. . | 6,500 | 343,500 |

During January 2005the following events and transactions occurred:

d. During January, Rs. 150,000 was collected on account.

e. During January, Rs. 7,200 of accounts receivable were written off as uncollectible.

f. On January 31, one account for Rs. 200 which had been written off earlier in the month was collected from the customer.

g. On January 31, a Rs. 10,000, 12% notes was discounted with resources at the Merchant's Bank. The 3-month note had been received on December 31, 2004, and matures on March 31, 2005. The bank charged a 15% discount rate.

h. On January 31, interest was occurred on a Rs. 15,000, 10% note. The note had been received on December 31.

**Required:**

Prepare entries to record the events and transactions listed.

Q.No.4. On September 30, 2005 Shahid Maintenance Service sold one of its vans. The acquisition cost of the van was Rs. 9,500. it had an estimated useful life of 5 years and a salvage value of Rs. 500. Straight line depreciation was used. The balance in the accumulated depreciation account at December 31, 2004 was Rs. 4,950.

**Instructions:**

a. Calculate the gain or loss on the sale assuming that the asset is sold for either (1) Rs. 4,000 or (2) Rs. 2,500. In both cases the sales is for cash.

# KARACHI UNIVERSITY BUSINESS SCHOOL
# FINAL EXAMINATION
## Financial Accounting

Course No.: BA (M) 512 — Max. Marks: 60
Time: 3 Hours — Date: 01/03/2005

Instruction: Attempt All Questions. Each Question carry equal marks.

Q.No.1
At April 30, the balance of the cash account according to the records of Sun Satellite Company was Rs. 20,180. The April 30 bank statement showed a balance of Rs. 27,887. You are to prepare the bank reconciliation of Sun Satellite Company at April 30 using the following information:

a) Deposit in transit at April 30, Rs. 5,160
b) Outstanding checks:
   Checks no. 493, Rs. 3,460
   Checks no. 496, Rs. 1,820
   Checks no. 497, Rs. 1,235
   Checks no. 499, Rs. 2,810
c) Service charge by bank, Rs. 37
d) A note receivable for Rs. 4,800 left Sun Satellite Company with bank for collection that had been collected and credited to company's account No. interest involved.
e) A check for Rs. 725 drawn by a customer, Abdul Rahim, but deducted from Sun Satellite Company's account by the bank and returned with the notation "NSF".
f) Sun Satellite Company check no. 480, issued in payment of Rs. 1,905 but erroneously recorded in Sun Satellite Company's accounting records as Rs. 1,509

Q.No.2
You are given following data of Kingstone Corporation for the past two years.

| | 2003 | 2004 |
|---|---|---|
| Earning per share | Rs. 2.50 | Rs. 2.40 |
| Market price per share---year end | 20.00 | 18.00 |
| Dividend per share | 1.20 | 1.00 |
| Net Income | 37,500 | 40,500 |
| Interest Expense | 1,700 | 2,500 |
| Total Assets | 500,000 | 480,000 |
| Stockholders' equity (no preferred stock issued) | 500,000 | 296,000 |

` (a) Compute the following ratios for 2003 & 2004.

1. Price earnings. 2. Dividend yield.
3. Returned on total assets. 4. Equity ratio
5. Returned on common stockholders' equity 6. Debt ratio

(b) Comment on the changes that have taken place from 2003 to 2004.

**Required:**

a) Compute the cost of ending inventory using LIFO method.
b) Compute the cost of goods sold using LIFO method.
c) Compute the cost of ending inventory using FIFO method.
d) Compute the cost of goods sold using FIFO method.
e) Compute the cost of ending inventory using **Average-cost** method.
f) Compute the cost of goods sold using **Average-cost** method.

Q.No.4

From the following adjusted trial balance of Warid Telecom for the period ended June 30, 2004

**Warid Telecom**
**Adjusted trial balance**
**For the period ended June 30, 2004**

| | Debit | Credit |
|---|---|---|
| | **Rs:** | **Rs:** |
| Cash | 6,400 | |
| Accounts Receivables | 9,000 | |
| Office Equipment | 18,000 | |
| Accumulated Depreciation Office Equipment | | 3,600 |
| Account Payables | | 7,000 |
| Income tax Payables | | 4,800 |
| Capital Stock | | 10,000 |
| Retained earnings, July 1, 2003 | | 2,300 |
| Dividends | 1,500 | |
| Fees Earned | | 23,000 |
| Salaries Expense | 8,100 | |
| Rent Expense | 2,200 | |
| Utilities Expense | 400 | |
| Depreciation Expense: Office Equipment | 300 | |
| Income tax Expense | 4,800 | |
| | 50,700 | 50,700 |

a) Prepare a statement of Net Income for Warid Telecom for June.
b) Prepare a statement of retained earnings for Warid Telecom for June.

Q.No.5

In January 1, 2001 Beta Industries purchased equipment with an estimated 10-year life for Rs. 100,000. The Residual value was estimated at Rs. 25,000. Beta Industries uses straight-line depreciation and applies the half-year convention.

On June 7, 2003, Beta Industries closed of its plants and sold this equipment for Rs. 65,000.

**Calculate:**

(a) Depreciation Expense for 2001, 2002 & 2003
(b) Book value at the date of sale in 2003.
(c) Gain loss on the sale in 2003.

# KARACHI UNIVERSITY BUSINESS SCHOOL
## UNIVERSITY OF KARACHI
**Affiliated colleges examination**

**Financial Accounting BA (M) 522**
**MBA-II**

**Max. Marks: 60** **Time allowed: 3 hrs**

**Instructions**: Attempt five questions including Q # 6 which is compulsory, computation where necessary Exchange of calculators, stationery items and use of mobile phone are not allowed:

### Q # 1- Financial Statement

The trial balance of Ivanna Fashion Center contained the following accounts at November 2006, the end of the company's fiscal year:

| | | |
|---|---|---|
| Cash | Rs. | 16700 |
| Accounts Receivable | | 33700 |
| Merchandise Inventory | | 45000 |
| Store Supplies | | 5500 |
| Store Equipment | 85000 | |
| Accumulated Depreciation-Store Equipment | 18000 | |
| Delivery Equipment | | 48000 |
| Accumulated Depreciation-Delivery Equipment | | 6000 |
| Notes Payable | | 51000 |
| Accounts Payable | 48500 | |
| Common Stock @ Rs. 10 each | | 80000 |
| Retained Earning | 30000 | |
| Dividends | | 12000 |
| Sales | | 757200 |
| Sales Returned and Allowance | | 4200 |
| Cost of Goods Sold | | 507400 |
| Salaries Expense | 140000 | |
| Prepaid Advertising Expense | | 26400 |
| Utilities Expenses | | 14000 |
| Repair Expense | | 12100 |
| Delivery Expense | 16700 | |
| Rent Expenses | | 24000 |

Supplementary data for adjustments:

1. Store supplies on hand totaled Rs. 3500
2. Depreciation is Rs. 9000 on the store equipment and Rs. 7000 on the delivery equipment.
3. Interest on Rs. 11000 is accrued on note payable at November 30.
4. Salaries paid in advance Rs. 15000.
5. Accrued Rent is Rs. 5000
6. Outstanding Repairing Expense Rs. 900
7. Unpaid Advertising Rs. 3600.

**Required:**

a. Prepare a Classified Income Statement.
b. Prepare a Classified Balance Sheet.

## Q # 2- Analysis of Financial Statement:

Take data from trial balance given Q # 1, compute the following. Solution without proper computation will not accept.

(i) Working Capital (ii) Current Ratio (iii) Quick Ratio (iv) Debt Rate (v) Equity Rate (vi) Rate of Return on Assets (vii) Rate of Return on Shareholders Equity (viii) Receivable Turnover (ix) Inventory Turnover (x) Earning per share

## : Q # 3- Accounting for Plant Assets:

On 5th April 2000, M/s Brilliant Company acquired an Equipment having a cost of Rs. 750000; the useful life of equipment is 10 years. The company uses diminishing balance method to calculate depreciation and allowance method to record it. The Rate of Depreciation is 10%. The company closed its book of account on December 31st each year. On 1st January 2003 the above equipment was trade in with new equipment, which has a cost of Rs. 900000 and the dealer granted a trade in allowance of Rs. 500000 for the old equipment. The depreciation was charged with the same method and rate on the new equipment

**Required:**

a. Compute and record depreciation from 2000 to 2004.
b. Compute the gain/loss on trade-in of equipment and the amount to be paid in Cash at the time of trade in.
c. Record entry in journal for the trade in of equipment.

## Q # 4- Inventory Valuation:

M/s A. S trader provided the following data related to their Inventory:

| | | |
|---|---|---|
| May | 1 | Inventory 300 units @ Rs. 6.50 |
| | 3 | Purchased 500 units @ Rs. 6.70 |
| | 5 | Sold 600 units @ Rs. 10.00 |
| | 7 | Purchased 400 units @ Rs. 6.85 |
| | 11 | Sold 200 units @ Rs. 11.00 |
| | 13 | Sold 150 units @ Rs. 12.00 |
| | 15 | Purchased 300 units @ Rs. 7.00 |
| | 19 | Sold 400 units @ Rs. 12.00 |
| | 23 | Purchased 250 units @ Rs. 7.15 |

**Required:**

a. Compute Cost of merchandise Inventory Ending and Cost of Goods Sold under FIFO and LIFO method assume that company uses perpetual Inventory system.
b. Compute Gross Profit and state why it differs under both the methods, if it is.

## Q # 5- Bank Reconciliation Statement:

On March 31, 2003 Mr. X Cash Book showed Balance of $ 9,730 on the same date Balance per Bank Statement was $ 4,453 on comparison of both the records following disagreements were revealed.

1. Un-present Cheques $ 2, 750.
2. Service Charges $ 37
3. Deposit in transit $ 4,500
4. Interest credit by bank $ 810
5. Direct deposit made by a customer in the bank $ 2,200
6. Paid Shop Rent by bank $ 500.
7. Loan paid by bank $ 6,000

**Required:**

a. Prepare Bank Reconciliation Statement on March 31, 2003
b. Record Adjusting Entries in Proper General Journal.

**Q # 6- Cash Flow Statement:**
Presented below is information related to M/s R Company. Use to prepare a Statement of Cash Flow:

| **Assets** | **2004** | **2003** |
|---|---|---|
| Cash | 54,000 | 37,000 |
| Accounts Receivable | 68,000 | 26,000 |
| Inventories | 54,000 | -0- |
| Prepaid Expenses | 4,000 | 6,000 |
| Land | 45,000 | 70,000 |
| Buildings | 200,000 | 200,000 |
| Accumulated Depreciation- building | (21,000) | (11,000) |
| Equipment | 193,000 | 68,000 |
| Accumulated Depreciation-equipment | (28,000) | (10,000) |

| **Liabilities and Stockholders' Equity** | **2004** | **2003** |
|---|---|---|
| Accounts payable | 23,000 | 40,000 |
| Accrued expense payable | 10,000 | -0- |
| Bonds payable | 110,000 | 150,000 |
| Common Stock ($ 1 par) | 220,000 | 60,000 |
| Retained earning | 206,000 | 136,000 |

**Income Statement for the year 2004:**

| | | | |
|---|---|---|---|
| Sales Revenue | $ | | 890,000 |
| Cost of goods Sold | | 465,000 | |
| Operating Expense | | 221,000 | |
| Interest Expense | | 12,000 | |
| Loss on sale of equipment | | 2,000 | 700,000 |
| Income from operation | | | 190,000 |
| Income Tax expenses | | | 65,000 |
| Net Income | | | 125,000 |

Additional information:

a. Operating expenses including depreciation expense of $ 33,000 and charges from prepaid expenses of 4 2,000.
b. Land was sold at its book value for cash.
c. Cash dividend of $ 55,000 were declared and paid in 2004.
d. Interest expense of $ 12,000 was paid in cash.
e. Equipment with a cost of $ 166,000 was purchased for cash. Equipment with a cost of $ 41,000 and a book value of $ 36,000 was sold for $ 34,000Cash.
f. Bonds of $ 10,000 were redeemed at their book value for Cash; bonds of $ 30,000 were converted into common stock.
g. Common stock ($ 1par) of $ 130,000 was issued for cash.
h. Accounts payable pertain to merchandise supplies.

**Required:**
Prepare a Cash Flow Statement by Indirect Method with proper headings of Operating, Financing and Investing Activities.