

College Name: _____

Student Name: _____ Seat No: _____

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KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION DECEMBER 2016; AFFILIATED COLLEGES
FINANCIAL ACCOUNTING: BA (M) – 522
MBA – II

Date: January 11, 2017

Max Time: 1.5 Hrs
Max Marks: 30**INSTRUCTIONS:**

1. Attempt any 3 questions. Do not write anything on question paper.
2. Mobile phone(s) or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.

- Q1** Xenge Company issued 8%, 9-year bonds with a face value of Rs.20,000 on January 1, 2013. The effective interest rate on the bonds was 10%, and the interest is payable on December 31 each year. Prepare the following:
- a) Journal entries at the time bonds were issued.
 - b) Amortization schedule showing the interest expense for the first three years.
 - c) Journal entries for interest expense for the first two years.

Q2

Arcade Corporation's balance sheet and income statement appear below:

Income Statement

Sales	\$723
Cost of goods sold	<u>453</u>
Gross margin	270
Selling and administrative expenses	<u>163</u>
Income before income taxes	107
Income tax expense	<u>32</u>
Net income	\$75

Balance Sheet

	<u>Ending</u> <u>Balance</u>	<u>Beginning</u> <u>Balance</u>
Cash	\$42	\$36
Accounts receivable	77	80
Inventories	54	58
Plant and equipment	581	480
less: accumulated depreciation	<u>(318)</u>	<u>(294)</u>
Total Assets	\$436	\$360
Accounts payable	\$23	\$28
Bonds payable	293	270
Common stock	61	60
Retained earnings	<u>59</u>	<u>2</u>
Total liabilities and equity	\$436	\$360

The company did not dispose of any property, plant, and equipment, retire any bonds payable, or repurchase any of its own common stock during the year. The company declared and paid a cash dividend.

Required: Prepare a statement of cash flows using the indirect method.

Q3 Shown below is information relating to the shareholders' equity of Reck Corporation at December 31, 2015:

8% noncumulative preference share, Rs.100 par, 100,000 shares authorized, 7,000 shares issued	Rs.700,000
Ordinary share, Rs.3 par, 1,000,000 shares authorized, 500,000 shares issued and outstanding	1,500,000
Share premium: preference share	400,000
Share premium: ordinary share	500,000
Retained earnings	800,000

From the above information, compute the following:

1. The total amount of legal capital
2. The total amount of paid capital
3. The average issue price per share of preference share
4. The book value per share of ordinary share (assume current-year preference dividends have been paid)
5. The balance in Retained Earnings at the beginning of the year was Rs.650,000, and there were no dividends in arrears. Profit for 2015 was Rs.475,000. What was the amount of dividend declared on each share of ordinary share during 2015?

Q4 Shown below is the shareholders' equity section of Lara's balance sheet at **December 31, 2015**:

Shareholders' equity:	
Ordinary share, Rs.2 par value, 500,000 shares authorized, ?? shares issued	Rs. 500,000
Share premium: ordinary share	<u>1,750,000</u>
 Total paid capital	 Rs.2,250,000
Retained earnings	<u>2,400,000</u>
 Total shareholders' equity	 <u>Rs.4,650,000</u>

In 2016, the following events occurred:

Lara issued 2,500 shares of Rs.2 par ordinary share as payment for legal services. Although Lara's share is not traded on any exchange, the agreed-upon value of the legal services is Rs.80,000.

Lara issued 4,500 shares of 6% noncumulative preference share, Rs.100 par value, for Rs.106 per share.

The board of directors declared a dividend of Rs.1.25 per share on the ordinary share. Lara's profit for 2007 was Rs.675,000.

REQUIRED

- Complete the shareholders' equity section of a balance sheet prepared for Lara at December 31, 2016.

END OF SUBJECTIVE PAPER