

College Name: _____

Seat No: _____ Student's Name: _____

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KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION DECEMBER 2017; AFFILIATED COLLEGES
FINANCIAL ACCOUNTING; BA (BS)-501
BBA – V

Date: January 15, 2018

Max Time: 2 Hrs

Max Marks: 60

INSTRUCTIONS:

1. Attempt any 4 questions. Do not write anything on the question paper. **EXCEPT** the initials mentioned above.
2. Mobile phones 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 The income statement and comparative balance sheet of Edison Corporation is given below:

EDISON CORPORATION
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

Sales	3,450
Cost of goods sold	<u>2,350</u>
Gross profit	1,100
Selling and administrative expense	<u>465</u>
	635
Other revenues and gains	
Gain on sale of investment	<u>40</u>
Income before tax	675
Income tax expense	<u>270</u>
Net income	405

During the year 2017, a dividend of \$130 was declared and paid by management of Edison Corporation. Some plant assets were purchased during 2017 and the payment was settled by issuing common stock amounting to \$35.

EDISON CORPORATION
COMPARATIVE BALANCE SHEET
As On December 31, 2017 and 2016

	2017	2016
Asset:		
Cash and cash equivalents	\$900	\$575
Accounts receivable	875	650
Inventory	800	950
Plant assets	950	850
Accumulated depreciation	(600)	(585)
Long-term investment	650	710
Total	<u>\$3,575</u>	<u>\$3,150</u>
Liabilities and Capital:		
Accounts Payable	600	450
Accrued liabilities	100	125
Bonds payable	700	775
Capital stock	950	850
Retained earnings	<u>1,225</u>	<u>950</u>
Total	<u>\$3,575</u>	<u>\$3,150</u>

Required: Using the data given above, prepare statement of cash flows of Edison Corporation using indirect method.

Q2 The president of HPL Inc. wants to know the effect of different inventory costing methods on the financial statements. For the purpose of comparison of some popular inventory costing methods, the following data was selected.

- Cash balance on January 1, 2013: \$14,000.
- Retained earnings January 1, 2013: \$20,000.
- Inventory on January 1, 2013: 8,000 units @ \$6.
- Income tax rate: 30%.

The HPL Inc. sold 10,000 units for \$240,000 during the year 2013. The total purchases were 12,000 units @ \$8 each and the total operating expenses were \$25,000 during this period. A periodic costing method is used.

Required:

- a. Prepare a comparative income statement using FIFO, LIFO and average costing method to show the effect of each on net operating income of HPL Inc.
- b. Show the balances of the following items on December 31, 2013 under FIFO, LIFO and average costing method:
 - i. Inventory
 - ii. Retained earnings
 - iii. Cash

Q3 The stockholder's equity of LDL Corporation at December 31, 2016 is shown below:

Common stock \$10 par, 100,000 shares authorized, 40,000 shares issued	\$ 400,000
Additional paid in capital: common stock	<u>200,000</u>
Total paid in capital	600,000
Retained earnings	<u>1,500,000</u>
Total stockholder's equity	<u>2,100,000</u>

During 2017, the following transactions effecting stockholder's equity occurred.

- i. A 5-for-4 stock split was proposed and 10,000 new shares were distributed to stockholders.
 - ii. The company purchased 2000 shares of its common stock on the open market at \$37/share.
 - iii. The company reissued 1000 shares of treasury stock at \$45 per share.
 - iv. Issued for cash 20,000 shares of previously unissued \$8 par value common stock at a price of \$45 per share.
 - v. A cash dividend of \$1 per share was declared and payable on December 31.
 - vi. A 10% of the outstanding stocks dividend was declared. The market price was \$48.
- Net income for the year was \$177,000.

Required:

- a. Prepare journal entries to record the transactions related to stockholder's equity.
- b. Prepare statement of retained earnings for the year ended December 31, 2017.

Q4 a) Johnston Co. on November 1, 2013 borrowed Rs. 1,000,000 from a bank issuing a three month 12% note.

Required:

Make entries in general journal of Johnston Co. relating to; issue of note on November 1; accrual of interest on December 31; and payment of note on February 1, assuming that the note was drawn as follows:

- 1) Face value of note Rs. 1,000,000 with interest stated separately.
- 2) With interest included in the face value of the note.

b) Explain the following accounting concepts

- 1) Going concern
- 2) Matching principle
- 3) Time period assumption

Q5 The following data are obtained from the accounting records of Martin Corp. at year ended December 31, 2017.

Net Sales	\$ 90,000
Cost of Goods Sold	54,000
Operating Expenses	24,000
Net Income	4,000
Total Assets	60,000
Average Inventory	15,000
Average Accounts Receivable	10,150
Total Current Assets	39,000
Total Current Liabilities	11,200

Required:

Compute the following

- | | | |
|-------------------------|-----------------------------|-------------------------------|
| (i) Current Ratio | (ii) Gross Profit Rate | (iii) Operating Profit Margin |
| (iv) Inventory Turnover | (v) Days Sales Outstanding. | |
| (vi) Return on Assets | (vii) Fixed Asset turnover | (viii) Total Asset turnover |

END OF EXAM PAPER