

College Name: _____

Student Name: _____ Seat No: _____

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KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2017; AFFILIATED COLLEGE
FINANCIAL ACCOUNTING; BA (M)–522
MBA – II

Date: July 11, 2017

Max Time: 1.5 Hrs

Max Marks: 30

INSTRUCTIONS:

1. Attempt 3 questions where Q1 is compulsory. Do not write anything on the question paper, **EXCEPT** the initials mentioned above.
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 a) Explain the importance of Financial ratio.

- b) The December 31, 2015, balance sheet and income statement for Johnson Company are given; Compute the specific ratios and compare them to the industry average.

Briefly comment on each ratio

Cash	\$17	Account Payable	7
Marketable securities	5	Notes Payable	3
Account receivable	3	Tax Payable	2
Inventory	16	Other accruals	3
Prepaid expenses	6	Current Liabilities	15
Current assets	47		
Gross Plant and Equipment	126	Long Term debt	35
Less Accumulated Depreciation	(57)	Preferred stock	10
Net Plant and equipment	69	Common stock	20
		Retained Earnings	36
Total Assets	116	Total Liabilities & Equity	116

Income Statement

Net Sales	\$1,072
Cost of Goods sold	921
Gross Profit	151
Selling expense	86
General and Administrative expense	26
Depreciation	6
Net operating Income	33
Interest Expense	4
Profit before taxes	29
Tax	12
Net Income	17

Ratio to Compute

Current

Quick

Debt to equity

Times interest period

Average collection period

Inventory Turnover

Fixed asset Turnover

Operating Profit Margin

Net Profit Margin

Return on asset

Return on equity

- Q2 The credit manager of Olympic Sporting Goods has gathered the following information about the company accounts receivable and credit losses during the current year
- | | |
|--|----------|
| Net Credit Sales | 3000,000 |
| Account Receivable at year end | 360,000 |
| Uncollectible account receivable | |
| Actually written off during the year | 43,650 |
| Estimated portion of year end receivable expected to prove uncollectible | 18,000 |
- Prepare one journal entry summarizing the recognition of uncollectible accounts expense for the entire year under each of the following independent assumptions

Required:

- Uncollectible account expense is estimated at the amount equal to 1.5% of net credit sales.
- The company uses the direct write off method of accounting of uncollectible accounts
- Uncollectible accounts expense is recognized by adjusting the balance in the Allowance for Doubtful Accounts. The balance in the allowance account at the beginning of the current year was 15,000.

- Q3 United Corporation purchase a machine on July 1, 2013 at an invoice price of Rs 200,000 subject to trade discount of 2%. A cash discount of 2.5% if the payment is made within 15 days. The company availed the discount period. Additional costs were incurred as follows.

Installation and Testing	4,800
Freight in	1,000
Insurance in transit	3,000
Driver license fee	600
A three year fire insurance policy	1,500

It is estimated that machine will have a scrap value of Rs10,000 at the end of its estimated service of 10 years. It is also estimated that machine will have a service life of 30,400 working hours and producing approximately 760,000 units.

Required:

- Record the machine cost and pass entries
- Record depreciation expense for the year ended December 31, 2013 and 2014 assuming the following depreciation methods
 - Straight Line Method
 - Diminishing Balance method at 40% rate.
 - Working hour Methods operated in 2013 1,200 hours, operated in 2014 3,400 hours
 - Production Method produced in 2013 40,000 unit in 2014 75,000 units

- Q4 Following is the data of Millennium Technologies

Balance Sheet Data	2015	2014
Assets		
Cash	\$290	\$100
Accounts receivable	250	200
Inventory	740	800
Property, plant, and equipment	920	900
Accumulated depreciation	<u>(290)</u>	<u>(250)</u>
Total assets	1,910	1,750
Liabilities and Equity		
Accounts payable	\$470	\$450
Interest payable	15	10
Dividends payable	10	5
Mortgage	535	585
Bank note	100	0
Common stock	430	400
Retained earnings	<u>350</u>	<u>300</u>
Total liabilities and equity	1,910	1,750

Income Statement for the Year 2015

Sales	\$1425
Cost of goods sold	1200
Depreciation	100
Interest Expense	30
Gain on sale of old machine	10
Taxes	<u>45</u>
Net income	\$60

Notes

- Dividends declared to shareholders were \$10.
- New common shares were sold at par for \$30.
- Fixed assets were sold for \$30. Original cost of these assets was \$80 and \$60 of accumulated depreciation has been charged to their original cost.
- The firm borrowed \$100 on a 10-year bank note-the proceeds of the loan were used to pay for new fixed assets.
- Depreciation for the year was \$100 (accumulated depreciation up \$40 and depreciation on sold assets \$60).

Required: Prepare cash flow statement.

END OF SUBJECTIVE PAPER