

## ISQ Examination (Summer-2012)

### Accounting for Financial Services – Stage-II

- Q. A) What is the purpose of revaluation of fixed assets?
- Q. B) State any THREE conditions which must be met, if development expenditure is to be recognized as an intangible asset.
- Q. On December 31, 2011 before adjustments, the allowance for doubtful accounts had a credit balance of Rs.2,000/-.

**Required:** Make the bad debts adjustments necessary under each of the following independent assumptions.

- A) The company estimates that 2.5% of its 2011 sales of Rs.3,500,000/- will not be collectible.
- B) Aging of all receivables reveals that Rs.8,000/- would probably not be collected.
- Q. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Framework for the Presentation of Financial Statement is issued by the International Accounting Standards Board.
- A) Does the company published financial statements, prepared in accordance with International Accounting Standards, achieve the objective stated above? Give your opinion.
- B) In the grid below, identify any four potential users of financial statements and their information needs.
- Q. Draw a brief comparison between held-for-trading and held-to-maturity securities, identifying accounting treatment for each.
- Q. Describe any FIVE principles covered under the generally accepted accounting principles.
- Q. There are three classifications of marketable securities. Describe each one, state its type and describe their disclosure on the balance sheet.

Q. Following is the information regarding ABC Bank:

	(Rs in millions)
Profit after tax	52
Total mark- up earned	2,023
Total Assets	58,982
Equity	3,808
Mark up and interest earned	2,684
Mark up and interest expensed	1,312
Earning Assets	57,987
Interest bearing Liabilities	53,433

Calculate ROE and interest spread.

- Q. A) What is a Suspense Account and why it is used?
- Q. B) The trial balance of M/s Mind Plus, a limited liability company, at 30<sup>th</sup> June 2011 failed to agree and a suspense account was opened with a debit balance of Rs.386,400/- pending further action to find the difference.

Subsequent checking revealed the following errors:

1. The balance of Rs.48,900/- on the carriage outwards account was omitted from the trial balance.
2. Discount columns in the cash book had been misposted:
  - discount allowed Rs.38,880/- had been credited to discount received account.
  - discount received Rs.68,200/- had been debited to discount allowed account.
3. An issue of 100,000 Re.1/- ordinary shares in exchange for an asset with an agreed value of Rs.400,000/- had been recorded by crediting ordinary share capital account with Rs.400,000/- and debiting the non-current asset account with Rs.400,000/-.

Required: Prepare journal entries with narratives to correct these errors.

Q. While working as a credit analyst in a bank, your supervisor asked you to review the financial statements of M/s Regent (Pvt) Ltd to review the credit limit. An extract of financial statements is provided below.

	(Rupees in millions)	
	Year Ended	
	March 31, 2011	March 31, 2012
Sales revenue (80% on credit and 20% cash)	1,800	2,500
Cost of sales (see note below)	(1,200)	(1,800)
Gross profit	600	700
Distribution costs	(160)	(250)
Administrative expenses	(200)	(200)
Profit from operations	240	250
Finance cost	(50)	(50)
Profit before tax	190	200
Income tax expense	(44)	(46)
Net profit for the year	146	154

Note: Cost of sales figures are made up as follows:

	March 31, 2011	March 31, 2012
Opening inventory	180	200
Purchases (all on credit)	1,220	1,960
	1,400	2,160
Less closing inventory	(200)	(360)
Cost of sales	1,200	1,800

**BALANCE SHEET**

(Rupees in millions)

	As at	
	March 31, 2011	March 31, 2012
<b>Assets</b>		
Non-current assets – cost	3,100	3,674
Less accumulated depreciation	1,214	1,422
	1,886	2,252
<b>Current assets</b>		
Inventory	200	360
Trade receivables	400	750
Cash at bank	100	120
	700	1,230
<b>Total assets</b>	<b>2,586</b>	<b>3,482</b>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Issued ordinary share capital*	1,000	1,200
Share premium account*	400	600
Income statement	168	322
	1,568	2,122
<b>Non-current liability</b>		
10% loan notes	500	500
<b>Current liabilities</b>		
Trade payables	210	380
Sundry payables	260	430
Tax payable	48	50
	518	860
	2,586	3,482

\*The additional share capital was issued on April 1, 2011.

**Required:** Calculate, for each of the two years, any of the FIVE accounting ratios that should assist your supervisor in evaluating the performance of the company. Also comment on the possible reasons for the changes in the ratios between the two years.

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