THE INSTITUTE OF BANKERS PAKISTAN
ISQ Examination (Summer-2011)
FINANCIAL PLANNING AND BUDGETING
Associateship

Q.1 A) Please write the alphabet of the selected choice in the answer column:

B) State True or False in the answer column. Give brief reason for your selection at the space provided below the question:

C) Fill in the blanks:

Q.2 AAA Bank has agreed to acquire BBB bank at a consideration of Rs 5 billion. The current paid up capital of AAA Bank is Rs 10 billion. The price will be settled by issue of 500 million ordinary shares of Rs 10 each in AAA to BBB. A due diligence of BBB has indicated that the current book value of the bank is Rs 5 billion. However, there were following matters that need to be taken into account, in determining the fair value of assets being acquired:

- **Shortfall in current provisions against bad debts: Rs 300 million.**
- **Impairment on investment should be taken at Rs 200 million.**

Please work out the amount of Goodwill arising on acquisition of BBB bank. Also work out the revised paid up capital of AAA bank after the acquisition of BBB Bank.

Q.3 The cost of an asset is Rs 1 billion The accumulated depreciation to date on this asset is Rs 500 million whereas the charge of depreciation for the year is Rs 100 million for the year 2010 .The management has decided to do a sale and lease back transaction of this asset at book value in 2011 .The leasing company will charge rentals on a staggered basis with first year charge in the year 2011 at Rs 50 million whereas rentals of Rs 550 million to be charged in years 2012 to 2014 in equal yearly installments. Show the impact of this transaction on the cash flow statement in the year 2011.

Show all your calculations.

Q.4 CCC Bank has declared a cash dividend @10 %. .The profit after tax for the year is Rs 500 million .

Paid up capital: Rs. 1 billion divided in to ordinary shares of Rs 10 each issued at par

Work out the amount of dividend for the year.

Q.5 Following data pertains to ABC Bank:

- Investment in the shares of an unlisted company: Rs 75 million comprising of 7.5 million shares of Rs 10 each.
- The current accounts show that the unlisted company has incurred losses and the break up value of its shares has declined to Rs 8 per share .

ABC Bank has decided to take the impairment loss on this investment. Please work out the revised amount of the net investment in the books of ABC Bank.

Q.6 AAA sells its freehold office premises and leases them back on a 20-year operating lease. The sale took place on 1 January 2014, and the company has a 31st December year end.

The details of the scheme are as follows:

Proceeds of sale	Rs.10,000,000
Fair value of the asset at the time of sale	Rs. 9,000,000
Carrying amount at the time of sale	Rs. 3,500,000
Lease payments (annual rental)	Rs. 480,000
Market rate for similar premises (annual rental)	Rs. 410,000

A) Calculate the profit on disposal that AAA should claim in 2014.
B) Calculate the annual rental that AAA will charge in its income statement.
C) Prepare all relevant extracts from AAA's income statement and statement of financial position for the year ending 31 December 2014.

Q.7 XXX Limited carries out a number of different business activities. Summarized information is given below:

	Revenue	Profit before tax	Total assets
	(Rs. In M)	(Rs. In M)	(Rs. In M)
Manufacture and sale of computer hardware	83	23	34
Development and supply of bespoke software:			
To users of the company's hardware products.	22	12	6
To other users	5	3	1
Technical support and training	10	2	4

Contract work on information technology products.	30	10	10
Total	150	50	55

Which of the company's activities should be identified as separate operating segments?

Q.8 The financial statements of A are as follows:

Statements of financial position at 31 December

	2013 (Rs)	2014 (Rs)
Non-current assets	-	-
Current assets		
Inventory	300,000	300,000
Cash	335,000	595,000
	635,000	895,000
	======	======
Capital and reserves	100,000	190,000
Loans (Foreign currency)	235,000	245,000
Trade payables	300,000	460,000
	635,000	895,000
	======	======

Income statement for the year ended 31 December 2014

	Rs.	Rs.
Revenue – all cash sales		1,003,000
Cost of sales		(910,000)
Operating profit before exchange Differences		93,000
		=========
Exchange differences		
Trading (Rs 2,000 + Rs 5,000) [as per purchase ledger below]	7,000	
Loan (Rs 245,000 – Rs 235,000) [as per balance sheet above]	10,000	
		(3,000)
Profit before tax		90,000
Tax		-
		90,000

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During the year, A purchased raw materials recorded in its books at Rs.100,000. By the year end A had settled half the debt for this purchase at Rs.48,000 and the remaining payable is retranslated at closing rate at Rs.45,000.

These transactions are included in the purchase ledger control account, which is as follows:

Purchase ledger control

	(Rs)		(Rs)
Cash	743,000	Balance b/d	300,000
Exchange gains			
On settled transaction (50,000 – 48,000)	2,000	Purchases	910,000
On unsettled transaction (50,000 – 45,000)	5,000		
Balance c/d			
Foreign currency Payable Other	 45,000 415,000		
	1,210,000 =======		1,210,000 =======

Show the gross cash flows (i.e. cash flows under the direct method) from operating activities, together with a reconciliation of profit before tax to net cash flow from operating activities.

Q.9 How should the following be valued?

A) Materials costing Rs.120 million bought for processing and assembly for a profitable special order. Since buying these items, the cost price has fallen to Rs.100 million.

B) Equipment constructed for a customer for an agreed price of Rs.18.0 million. This has recently been completed at a cost of Rs.16.8 million. It has now been discovered that, in order to meet certain regulations, conversion with an extra cost of Rs.2.1 million will be required. The customer has accepted responsibility and agreed to meet the cost by deducting it from the agreed price.

Q.10 Following data pertains to AAA Bank :

	(Rs 000)	
	<u>2008</u>	<u>2007</u>
Gratuity Fund	5,000	4,500
Actuarial valuation	5,500	Not available

Calculate the amount of additional contribution required to be made during 2009. What measures you will recommend to avoid such deficits in future.

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