

THE INSTITUTE OF BANKERS PAKISTAN

ISQ Examination (Winter-2011)

Accounting for Financial Services – Stage-II

Section-I

Multiple Choice Questions

Number of Questions: 30

Marks: 45

Allotted Time: 60 minutes

Section-II

Constructed Response Questions

Number of Questions: 08

Marks: 55

Allotted Time: 120 minutes

Q.31 Following data pertains to the Yakjehti Bank. Identify which of the following transactions shall be classified as Operating, Investing and Financing activities.

Exhibit: Business Transactions		
Sl.	Transactions	Classification
1	Repurchased own outstanding stock	
2	Purchased additional machinery	
3	Fixed capital expenditure	
4	Dividend income received	
5	Dividend paid to stock holders	
6	Net investments in securities, associates and joint venture	
7	Lending to financial institutions	
8	Proceeds from sale of fixed assets	
9	Exchange adjustments	
10	Borrowings from financial institutions	

Q.32 The following data pertains to company A:

Acquisition cost of asset	Rs.60,000
Salvage value	Rs. 5,000
Useful life	5 years
Cash flow per year	Rs.10,000
Accumulated depreciation	Rs. 6,000
Expected output of machine	20,000 units

Use the above data to answer the following:

- A. Calculate the first year's depreciation expense based on straight line method (SLM) and double declining method (DDM)?
- B. Compared to reported equity using Double declining method, if the company A had used straight line method to calculate the depreciation expense, the equity would have been lower same or higher in initial years? Justify your answer.
- C. What will be the effects on cash flow statement in each method? Justify your answer.

Q.33 Return on equity is one of the measures of profitability commonly used to evaluate the return generated on investors' investments. Following data pertains to Aquarius Manufacturing Co.

Financial Ratios	2007	2008
Operating Margin	0.12	0.1
Return on Assets (%)	5.76%	5.13%
Assets to Equity ratio	1.2	1.53
Tax burden	0.5	0.51
Interest burden	0.6	0.61
Asset turnover	1.6	1.65

- A. Calculate the return on equity for FY2007 and FY2008 using the above data?
- B. Has the company's Return on Equity (ROE%) changed i.e. decreased or increased or remained constant in FY 2008 against previous year?
- C. What are the factors that gave rise to that change? Briefly justify your answer.

Q.34 A) Describe how trial balance is prepared. Explain its importance.

Q.34 B) Briefly state Adjusted Trial Balance and its purpose.

Q.35 On 1 October 2009 M/s Jami Solutions entered into an agreement to lease a generator that had an estimated life of 10 years. The lease period is for four years with annual rentals of Rs. 5,000 payable in advance from 1 October 2009. The generator is expected to have a nil residual value at the end of its life. It has a fair value of Rs. 50,000 at the inception of the lease.

- A.** Identify the type of lease.
- B.** Show journal entries to record lease transaction and related depreciation expense.
- C.** How should the lease be accounted for in the income statement and Balance Sheet of M/s Jami Solution for the year end on 31 March 2010?

Q.36 With reference to the quality of financial statements, define the following concepts.

- A.** Reliability
- B.** Relevance
- C.** Prudence
- D.** Materiality
- E.** Accounting period

Q.37 Osaka manufacturing uses general journal to record its day to day business transactions. Osaka recently purchased a production plant to meet the increasing demand of the product. Sequence of the transactions relating to the plant is given below

- A.** On 1 January 2010, purchased a plant for cash Rs. 1,000,000.
- B.** On 3 December 2010, recorded depreciation expense using straight line method with 10 years of useful life and zero salvage value estimated after ten years.
- C.** On 1 January 2011, sold the plant for Rs. 1,000,000 cash.

Question: Create the general journal entries using the above sequence of transactions.

Q.38 Suppose you are working as a credit analyst in You Bank. Your manager has asked you to prepare a comparative analysis of the business performance of two similar businesses, M/s Yarn Expert and M/s Cotton Cares to decide further credit line.

The financial accounts of the two firms are as under:

	M/s Yarn Expert	M/s Cotton Cares
Balance Sheet		
Assets		
Cash & cash Equivalents	4,000	8,000
Notes receivable	7,000	13,000
Inventory	5,000	16,000
Operating Fixed Assets	18,000	33,000
Other Assets	5,000	6,000
Total Assets	39,000	76,000
Liabilities & Stockholder's Equity		
Accounts payable	4,000	5,000
Notes payable	7,000	8,000
Bonds payable	13,000	24,000
Capital	11,000	16,000
Retained Earnings	4,000	23,000
Total Liabilities & Stockholder's Equity	39,000	76,000
Income Statement		
Sales	60,000	95,000
Cost of Goods Sold	41,800	67,000
Gross Margin	18,200	28,000
Operating Expenses		
Selling Expense	9,000	12,000
Administrative expenses	4,000	6,000
Interest expenses	2,000	3,600
Income Tax	1,800	3,500
Total Operating expenses	16,800	25,100
Net Income	1,400	2,900

Additional information:

- Number of shares of M/s Yarn Experts and M/s Cotton Cares is 1,000 and 3,000 respectively.
- Market price of shares of M/s Yarn Experts is Rs. 35 and of M/s Cotton Cares is Rs. 18
- Dividend paid by M/s Yarn Experts is Rs. 6 and by M/s Cotton Cares is Rs. 5.2

Compute the following:

- A. Prepare an analysis of liquidity, using any 3 of the following ratios: current ratio, quick ratio, Average days sales collected, average days inventory converted.
- B. Prepare an analysis of profitability using any 4 of the ratios from gross profit margin, net profit margin, asset turnover, returns on asset, returns on equity, earning per share.
