

**ISQ Examination - Summer-2013**  
**Accounting for Financial Services - Stage- II**

- Q. There are two methods of drafting a cash flow statement: Direct and Indirect. Both methods produce the same results although the approach used in preparation is different.
- A. Explain the direct method of cash flow preparation and identify any TWO advantages of using this method.
  - B. Explain the indirect method of cash flow preparation and identify any ONE advantage of using this method.

- Q. Awami Bank has the following historical collection pattern for its credit cards:

- A. 70% in month of usage
- B. 15% in first month after usage
- C. 10% in the second month after usage
- D. 4% in third month after usage
- E. 1% uncollectible

The usage on the credit cards for last ten months is as follows:

June	July	August	September	October	November	December
49,000	60,000	70,000	80,000	90,000	100,000	85,000

**Calculate the following:**

- A. Total estimated cash collections during the month of October, November and December.
  - B. The total amount of bad debt expense by December 31.
- Q. A. Explain any two differences between revenue expenditure and capital expenditure?
- Q. B. Bank B purchased a car for Rs.1,000,000 with a salvage value of Rs.100,000 and a useful life of 10 years. Record the depreciation entry at the end of the third year of the useful life of the car, assuming the Bank uses:
- i. Straight Line method
  - ii. Double Declining method

- Q. A. What is the purpose of computing ratios?
- Q. B. For each of the following questions, indicate a ratio that will help to answer it.
- How effective are the credit policies of the firm?
  - How much confidence do investors have in the firm?
  - Are the assets being used efficiently?
  - How is the firm being financed?

- Q. Following data pertains to acquisition of marketable securities by M/s Team Green Limited.

- On 30 Nov 2011, acquired trading securities for Rs.400,000/- for cash.
- On 10-Dec-2011, acquired securities available for sale for Rs.100,000/-. Payment made via cheque.
- On 31-Dec-2011, gain on trading securities was Rs.35,000/- and gain on securities available for sale was Rs.10,000/-
- On 10-Jan-2012, trading securities were sold for Rs.480,000/-
- On 28-Jan-2012, securities available for sale were sold for Rs.165,000/-

Required:

Prepare journal entries to record the above transactions.

- Q. Following business activities took place for Al Rahi Bank for the month of January 2013:

- |        |  |
|--------|--|
| Jan.1  | The bank paid Adamjee Insurance Rs.120,000 for coverage against fire for a period of one year.   |
| Jan.5  | The bank purchased supplies for administrative use amounting to Rs.5,000.  |
| Jan.7  | The bank received Rs.30,000 as commission fee from Mr. Hilal against services to be performed during the months of January, February and March 2013. |
| Jan.21 | Received a utility bill amounting to Rs.10,000.  |
| Jan.30 | Purchased laptop worth Rs.75,000 on cash.  |

**Additional information:**

- The bank adjusts its accounts on a monthly basis.
- At Jan 31, supplies on hand amounted to Rs.3,200

Required:

Prepare all adjusting entries applicable, in proper format as of Jan 31, 2013 for Bank Al Rahi.

Q. A. Explain two differences each between the income statement and balance sheets of a financial institution and a manufacturing concern:

- i. Income Statement
- ii. Balance Sheet

Q. B. Below are the balance sheet items of a financial institution. Construct a balance sheet in proper format:

Balances with other banks	607,000
Deposits and other accounts	39,338,000
Operating fixed assets	343,000
Other assets	652,000
Deferred tax assets	-
Bills Payable	940,000
Borrowing from financial institutions	13,155,000
Lending to financial institutions	3,896,000
Investments	17,959,000
Share capital	1,000,000
Reserves	1,806,000
Sub-ordinate loans	-
Other Liabilities	983,000
Deferred tax liabilities	758,000
Inappropriate profit	(53,000)
surplus on revaluation of assets	1,055,000
Advances	32,230,000
Cash and balances with treasury	3,295,000

Q. Briefly define any five classes of Capital.

Q. A. Define common-size balance sheet and state any TWO key benefits.

Q. B. Give at least TWO differences between horizontal and vertical analysis.

Q. Fill in the missing values on the balance sheet and income statement below for Ikram and Company. Use the ratios that are given below to calculate missing values. These ratios are sufficient for you to derive the missing information.

- Current ratio = 3.25
- Debt ratio = 0.299
- Total asset turnover = 0.562 times/yr
- Gross profit margin = 0.49
- Net profit margin = 0.15
- Inventory turnover = 4.799 times/yr
- Receivables turnover = 6.844 times/yr

Cash	A		Accounts payable	E	
Accounts Receivables	B		Long term debt		208,000
Inventory	C		Common stock		71,000
Fixed assets	D		Retained earnings	F	
<b>Total assets</b>		<b>937,000</b>	<b>Total liabilities &amp; equity</b>	G	

Sales (H) \_\_\_\_\_

Cost of goods sold (I) \_\_\_\_\_

Net income (J) \_\_\_\_\_

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