



Accounting for Financial Services

The sample questions are related to the JAIBP Stage 2 course “**Accounting for Financial Services**”. The students are advised to thoroughly read the exam guidelines and the syllabus guide for this course before start studying for the paper. The questions are shared to give an idea to the student about the paper format and types of questions. For further information visit the IBP website www.ibp.org.pk

Multiple Choice Questions

Each MCQ carry one and half mark.

- Q1.** The basic rule of book-keeping debits all expenses and losses and credit all incomes and gains is applicable to:
- A. Personal account
 - B. Real account
 - C. Nominal account (Answer)
 - D. Capital account
- Q2.** Which of the following concepts dictates that financial information should be neutral and biasfree?
- A. Completeness concept
 - B. Faithful representation concept
 - C. Objectivity concept (Answer)
 - D. Duality concept.
- Q3.** A major Problem associated with credit sales is:
- A. Increases Uncollectable (Answer)
 - B. Increased Gearing
 - C. Low Profitability
 - D. Low Liquidity



Constructed Response Question

Question:

- A) Define Operating, Investing & Financing Activities. (3 Marks)**
- B) Classify which of following activities are operating, Investing, & Financing. (2 Marks)**
 - 1. Income Tax Expense
 - 2. Issuance & Repayment of Debit
 - 3. Cost of Providing Services
 - 4. Purchase & Sale of Fixed Assets

Answer

Part-A

- 1. Operating Activities are those activities that are part of day to day business functioning of an entity.
- 2. Investing activities are those activities associated with the acquisition and disposal of long term assets.
- 3. Financing Activities are related to obtaining and repaying of capital.

Part-B

- 1. Operating Activities
- 2. Financing Activities
- 3. Operating Activities
- 4. Investing Activities



Extended Response Question

Question:

(Part A)

Following are some of the figures present in the financial statements of Jaffer and Co.
Gross Profit: Rs. 315,000 Sales: Rs. 555,000 Operating profit: Rs. 100,000.

(Part B)

The profitability ratios, of ABC Ltd are as follows:

Gross profit margin = 57%

Operating profit margin = 19%.

Question

- A. Calculate the profitability ratios for Jaffer and Co, namely. **(2 marks)**
 - i. Gross Profit Ratio
 - ii. Operating Profit Ratio
- B. Elaborate on the overall performance of Jaffer and Co. and ABC Ltd. Using the profitability ratios given above. **(5 marks)**
- C. Summarize the individual features of horizontal and vertical methods of analyzing financial statements? **(3 marks)**

Answer

Part-A

(i) Gross Profit = $(\text{Gross Profit} / \text{Net Sales}) \times 100$

$315,000 / 555,000 \times 100 = 56.76\%$

(ii) Operating Profit = $(\text{Op. Profit} / \text{Sales}) \times 100$

$100,000 / 555,000 \times 100 = 18\%$

Part-B

The slightly higher Gross Profit margin of ABC Ltd. Shows that it has maintained a larger gap between the selling price and the cost price of products and services.

The higher Operating profit margin possibly signifies a lowering of overall expenses or the use of mechanized means in the business of ABC Ltd.

Part-C

- a. Horizontal analysis focuses on trends and changes in financial statement items over time. It shows changes between years in both rupee and percentage form. This helps in focusing on key factors that have affected the financial position of the company.
- b. Vertical analysis is sometimes referred to as “common-size” analysis because all of the amounts of a given year are converted into percentages of a key financial statement component. This form of analysis allows the users to see the composition of each of the financial statements and determine if significant changes have occurred.