



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate Sector

Financial Accounting (05.11.2015)

Marks - 100

Duration: 3 hrs.

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

Attempt all Questions

Q.1. Following is the trial balance of Green Acres (Private) Limited as at June 30, 2015:

PARTICULARS	DEBIT	CREDIT
Furniture and Fixture	50,000	
Vehicles	120,000	
Plant and Machinery	130,000	
Cash in Hand	200,000	
Opening Inventory	120,000	
Accounts Receivables	3,243,000	
Prepaid Insurance	60,000	
Purchases	2,050,000	
Sales Return	150,000	
Transportation Inwards	50,000	
Salaries and Benefits	200,000	
Rent Expenses	180,000	
Advertisement and Publicity	50,000	
Printing and Stationery	30,000	
Utilities Expenses	30,000	
Sundry Establishment Expenses	50,000	
Accumulated Depreciation - Furniture and Fixture		10,000
Accumulated Depreciation - Vehicles		24,000
Accumulated Depreciation - Plant and Machinery		26,000
Accounts Payable		350,000
Long Term Loan		1,500,000
Bank Overdraft		173,000
Purchase Return		80,000
Sales		2,800,000
Commission Income		50,000
Paid-up Capital		2,000,000
Bank Mark-up	37,500	
Retained Earnings	262,500	
	7,013,000	7,013,000

Contd. on back

Additional Information:

- (a) Closing Stock as at June 30, 2015 is Rs. 100,000.
 (b) Salaries Expenses for the year is Rs. 300,000.
 (c) Depreciation is to be provided as follows:-
 • Furniture and Fixture 10%
 • Vehicles 20%
 • Plant and Machinery 20%
 (Depreciation on Plant and Machinery is charged to Cost of Goods Sold).
 (d) Unearned Commission Rs. 10,000.
 (e) Rent Expenses for the year Rs. 160,000.
 (f) An item of Purchase Return of Rs. 50,000 wrongly credited to Sales.
 (g) Insurance Expenses for the year 60,000.
 (h) Company obtained a Long Term Loan from Commercial Bank @ 10% per annum on Jan 01, 2015 which is repayable in 10 Quarterly Installment of Rs. 150,000/= . The installment is starting from July 01, 2015.
 (i) The authorized Capital of the Company is Rs. 5,000,000/= divided into 500,000 ordinary shares of Rs. 10/= each.

Required:**20**

Prepare the following Financial Statements in accordance with International Financial Reporting Standard / IAS - 1 for June 30, 2015.

- (i) Statement of Profit or Loss.
 (ii) Statement of Financial Position.

Q.2. The comparative Balance Sheet of Abdul Rehman & Sons for the year ended June 30, 2014 and 2015 is as follows:

	2015	2014
EQUITY AND LIABILITIES	Rs.	Rs.
Capital Account	33,433,000	27,942,000
Short Term Finance	2,545,000	1,616,000
Trade Creditors	3,457,000	2,850,000
TOTAL EQUITY AND LIABILITIES	<u>39,435,000</u>	<u>32,408,000</u>
ASSETS		
Fixed Assets	15,172,000	12,346,000
Short Term Investments	4,911,000	—
Stock in Trade	12,178,000	14,950,000
Trade Debts net of Provision for Bad Debts	6,732,000	4,887,000
Cash and Bank Balance	442,000	225,000
TOTAL ASSETS	<u>39,435,000</u>	<u>32,408,000</u>

Additional data related to June 30, 2015 is as follows:-

- (a) Profit during the year ended June 30, 2015 Rs. 3,161,000.
 (b) Mr. Muhammad Ali withdraws Rs. 3,120,000 during the year for personal use.

Contd.....

- (c) Accumulated Depreciation on Fixed Assets - June 30, 2014 - Rs. 5,605,000.
- (d) Accumulated Depreciation on Fixed Assets - June 30, 2015 - Rs. 7,470,000.
- (e) Provision for Bad Debts - June 30, 2014 - Rs. 385,000.
- (f) Provision for Bad Debts - June 30, 2015 - Rs. 484,000.
- (g) During the year fixed assets costing Rs. 1,500,000 with a book value of Rs. 867,000 were sold for Rs. 1,284,000.

Required:

10

Prepare Statement of Cash Flows for the year ended June 30, 2015 using indirect method in accordance with IAS-7.

- Q.3.(a)** The Ray Pharma is a single product company. The Company presents the following information regarding its activities during the quarter ending June 2015.

Opening Inventory April 01, 2014 = 1,200 Ampoules @ 2.50 per unit

Purchases during the period

- May 12, 2015 : 3,200 Ampoules @ 3.00 per unit.
- June 22, 2015 : 2,000 Ampoules @ 3.25 per unit

Sales during the period

- April 02, 2015 : 800 Ampoules @ 6.00 per unit
- May 18, 2015 : 2,000 Ampoules @ 6.25 per unit
- June 29, 2015 : 1,200 Ampoules @ 6.75 per unit

Required:

- i) Assume Pharma Company uses periodic Inventory System, compute Cost of Goods Sold (COGS) and ending inventory as on June 30, 2015 under :

(a) FIFO Method

04

(b) LIFO Method

04

- ii) Explain the reason of higher Inventory value under FIFO than LIFO.

03

- (b) Define following as per IAS – 02:

(a) Net Realizable Value

02

(b) Fair Value

02

- Q.4.** List down the conditions regarding recognition of revenue from following:

(a) Sale of Goods

05

(b) Interest, Royalties and Dividends

05

Contd. on back

Q.5. Ali and Saleem carry on independent business. The summarized Balance Sheet as on June 30, 2014 is appended below:

	Ali	Saleem
EQUITY AND LIABILITIES	Rs.	Rs.
Sundry Creditors	110,000	47,000
Accrued Expenses	750	2,000
Bills Payable	12,500	-
Capital Account	153,000	95,500
	276,250	144,500

ASSETS		
Stock in Trade	170,000	98,000
Sundry Debtors	89,000	37,000
Cash at Bank	13,000	7,500
Cash in Hand	987	234
Furniture and Fixture	2,750	1,766
Investments	513	-
	276,250	144,500

Ali and Saleem agreed to form a partnership firm from July 01, 2014 on the following terms and conditions;

- (i) The capital of the partnership firm would be Rs. 300,000 which would be contributed by them in the ration of 2 : 1 in cash as Premium for Goodwill.
- (ii) The assets of the individual businesses would be evaluated by Ahmed at which values, the firm will take them over and the value would be adjusted against the contribution due by Ali and Saleem. Ahmed gave his valuation report as follows:-
 - a) The Assets of Ali:
 - Stock in Trade to be written down by 15%.
 - Sundry Debtors amounting to Rs. 9,000 estimated unrealizable not to be assumed by the firm.
 - Furniture and Fixture to be valued at Rs. 2,000 and investments to be taken at market value of Rs. 1,000.
 - b) The Assets of Saleem:
 - Stock in Trade to be written up by 10%.
 - Sundry Assets to be admitted at 85% of their value; rest of the assets to be assumed at their book value.
- (iii) The firm is not to assume any creditors other than the dues on account of purchases made.

Required:

- (a) Pass necessary Journal entries in the books of Ali. **07**
- (b) Pass necessary Journal entries in the books of Saleem. **07**
- (c) Balance Sheet of the firm as on July 01, 2014 alongwith Purchase Consideration. **06**

Contd.....

Q.6. Alpha Limited of Karachi has a branch at Lahore. Goods are invoiced to the branches at cost plus 33.33%. The branch remits all cash received to the head office and all expenses are paid by the head office. The data relates to Lahore branch for the year ended December 31, 2014 is appended below:

Branch Debtors (Jan-01-2014)	6,000
Branch Stock (Jan-01-2014) (Invoice Price)	2,400
Sales Cash	3,000
Sales Credit	60,000
Goods from Head Office (Invoice Price)	72,000
Cash received from Debtors	57,600
Discounts allowed to Debtors	1,400
Bad Debts	300
Branch Expenses Paid by H.O.	15,000
Branch Stock (Dec-31-2014) (Invoice)	11,400

Required:

From the data above prepare following:

- i) Branch Stock Account **02**
- ii) Branch Adjustment Account **04**
- iii) Branch Debtors Account **04**
- iv) Branch Profit and Loss Account in the books of Alpha Limited, Head Office. **05**

Q.7.(a) As per IAS-16 , what are the elements of cost of an item of Property, Plant and Equipments: **04**
assets?

(b) On January 01, 2014 Classic Cleaners (Pvt.) Limited acquired Cleaning Machine for Rs. 2,500,000 for cleaning of clothes. The following further cost were incurred:

- Delivery (Freight) Rs. 180,000
- Installation Rs.245,000
- General and Administrative Costs Rs.30,000
- Income Tax (adjustable against Tax Liability of the Company Rs.125,000)

The installation and set up period took 3 months and another Rs.210,000 was spent on start-up cost directly related to bringing the asset to its working condition.

The machine has an estimated useful life of 14 years. The residual value of the machine is estimated to be Rs. 180,000 estimated costs to dismantle the machine are Rs.125,000.

Required:

Calculate the cost of new machine and what are the annual charges of depreciation in the Income Statement for the year ended December 31, 2014? **06**

It is the company policy to charge depreciation on proportionately on the basis of usage during the period.



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate | AGP | PG | PMAD | PUBLIC Sectors

Cost Accounting (04.11.2015)

Marks-100

Duration: 3hrs.

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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Attempt all Questions

- Q.1.** A lorry loaded with material of mixed goods was purchased for Rs.9,000. Market prices are shown against each:

Order	Units	Selling Rate (Rs).
A	5,000	1.20
B	3,000	1.00
C	2,000	0.50

Required:

Find the purchase rate per unit on each grade of the material assuming that all grades yield same rate of profit. **15**

- Q.2.** The Managing Director of ABC Limited is very much per-turbed to see that labour turnover is increasing every year. Before taking appropriate action, he desires to know the profit foregone on account of Labour Turnover. **You are required to calculate the profit foregone on account of Labour Turnover from the following:** **15**

ABC Ltd

Income Statement for the year ended 31-12-2013

	Rs.	Rs.
Sales		200,000
Less: Variable cost:		
Material	50,000	
Direct Labour	40,000	
Variable Overhead	<u>40,000</u>	
		<u>130,000</u>
Contribution		70,000
Less: Fixed Overhead		<u>20,000</u>
Profit before Tax		<u>50,000</u>

The direct labour hours worked in the concern during the period were 20,300 of which 500 hours pertained to the new workers on training. Only 40% of the trainees time was productive. As replacement for the workers left was delayed for some time, 600 productive hours were lost.

The direct cost incurred by the company as a consequence of labour separation and replacements were as follows:

Separation cost = Rs.2,000 Selection costs = Rs.3,000 Training Cost = Rs.5,000

Contd. on back

- Q.3.** For department, the standard overhead rate Rs.2.50 per hour and the overhead allowances are as follows:

Activity Level	Budget Overhead Allowance
Hours	Rs.
3,000	10,000
7,000	18,000
11,000	26,000

Calculate:

- (a) The Fixed Cost. **08**
- (b) The standard activity level on the basis of which the standard overhead rate has been worked out. **06**
- Q.4.** One tonne of raw material put into a common process yields four joint products **P, Q, R, and S**, their weight being **63kgs, 117kgs, 180kgs** and **540kgs**, respectively. The balance in weight is considered as normal wastage. **10**
- Based on the total processing cost of Rs.20,000 per tonne of raw material, you are required to apportion the joint cost of product P, Q, R and S on the bases of weight.**
- Q.5.** A company has an opening stock of 6,000 units of output. The production planned for the current period is 24,000 units and expected sales for the current period amount to 28,000 units. The selling price per unit of out put is Rs.10. Variable cost per unit is expected to be Rs.6 per unit while it was only Rs.5 per unit during the previous period. **11**
- What is the Break Even volume for the current period if the total fixed cost for the current period is Rs.86,000? Assume that the First in First out system is followed.**
- Q.6.** Jumbo Enterprises manufactures one product, and the entire product is sold as soon as it is produced. There are no opening or closing stocks and work in progress is negligible. The company operates a standard costing system and analysis of variances is made every month. The standard cost card for the product is as follows:

		Rs.
Direct material	0.5 kgs. at Rs.4 per kg	2.00
Direct wages	2 hours at Rs.2 per hour	4.00
Variable overheads	2 hours at Re.0.30 per hour	0.60
Fixed overheads	2 hours at Rs.3.70 per hour	<u>7.40</u>
Standard Cost		14.00
Standard profit		6.00
Standard selling price		<u><u>20.00</u></u>

Selling and administration expenses are not included in the standard cost and are deducted from profit as a period cost.

- Budgeted output for April 2007 was 5,100 units.
- Actual results for April 2007 were as follows:
 - Production of 4,850 units were sold for Rs.95,600
 - Materials consumed in production amounted to 2,300 kgs. At a total cost of Rs.9,800
 - Labour hours paid for amounted to 8,500 hours at a cost of Rs.16,800
 - Actual operating hours amounted to 8,000 hours.
 - Variable overheads amounted to Rs.2,600
 - Fixed overhead amounted to Rs.42,300
 - Selling and administration expenses amounted to Rs.18,000

Required:

- (i) Material price Variance **03**
- (ii) Material usage Variance **04**
- (iii) Labour rate Variance **03**

(iv) Labour efficiency Variance	03
(v) Variable overhead expenditure Variance	04
(vi) Variable overhead efficiency Variance	04
(vii) Fixed overhead Expenditure	04
(viii) Fixed overhead Volume Variance	04
(ix) Sales Margin Variance due to selling price	03
(x) Sales Margin Variance due to volume	03



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate | AGP | PG | PMAD | PUBLIC Sectors

Bus. Com. & Report Writing (06.11.2015)

Marks - 100

Duration: 3 hrs

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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Attempt all Questions

- Q.1.** Choice of communication medium varies from situation to situation. Identify the most appropriate situations for the following medium? **08**
- (i) Teleconference
 - (ii) Advertisements
 - (iii) Email
 - (iv) Memoranda
- Q.2.** List down and explain in two lines the qualities which your information must possess while communicating? **07**
- Q.3.** (a) What is Emphatic Listening? **2.5**
- (b) You are Manager Customer Care department. What techniques would you advise your staff to adopt for becoming an Emphatic listener to customer? **7.5**
- Q.4.** Private schools in Karachi have increased fee enormously. As a parent write a persuasive letter to different parents and invite them to form a “Parents Association” to protest legally against increase in fee. Assume necessary details? **15**
- Q.5.** What are axioms of communication? Define Content and relationship dimensions of communication and Irreversibility of communication. **05**
- Q.6.** Identify the barrier that might disrupt communication in the following cases. **03**
- (i) “The stage drama was excellent. I missed some of the dialogues due to disturbance in the theatre”.
 - (ii) The regional manager sent only that data to the Head Office which should get appreciation.
 - (iii) The Supervisor said to the internee “Go and Fire the document”. The internee burned the document whereas he had to take a photocopy.
- Q.7.** What key factors play a role in selection of media and channel? **06**
- Q.8.** Your firm is interested in putting up a proposal to Govt. for starting Bus Service in Karachi. You are assigned to prepare a report containing “business plan” for the CEO of your company. Your business plan must contain business environment analysis, conclusion, recommendations and other related areas. You must assume necessary details? **16**

Contd. on back

- Q.9.** What are the benefits of using videoconferencing in an organization? **10**
- Q.10.** Your organization has signed an MOU with a University to provide special fee discounts to employees for continuation and enhancement of qualification. Write a circular to inform all employees about the above arrangement. Assume necessary details. **10**
- Q.11.** You are Leader of a Team which is responsible for implementation of Accounting and Finance module of ERP. Write a Progress Report on the work done so far. Assume necessary details. **10**



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate Sector

Business Laws (02.11.2015)

Marks - 100

Duration: 3 hrs

Additional time – 15 min for Paper Reading

[Instructions]

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- Start each question from fresh page.

Attempt all Questions

- Q.1. a)** What is the composition & tenure of Federal Shariat Court? **04**
- b)** Distinguish between Civil and Criminal Laws by giving two examples of each. **06**
- Q.2. a)** List down the circumstances when the object or consideration of an agreement are said to be unlawful under Contract Act, 1872. **04**
- b)** Comment on legality and enforceability of agreement in each of the following situations:
- i)** Kamil and Raza agree that Kamil shall sell a house to Raza for Rs. 2,000,000 but if Raza uses it as gambling house, Raza will pay Rs. 4,000,000 for it. **04**
- ii)** A & B carried on business in a certain locality in Karachi. A promised to stop business in that locality, if B pays him Rs.100,000. A stopped his business but B did not pay him the promised money. **03**
- Q.3.** List down any ten duties of an agent in an agency relationship under the Provisions of Contract Act, 1872. **10**
- Q.4. a)** Distinguish between the terms “Condition” and “Warranty” under the provisions of Sale of Goods Act, 1930. **05**
- b)** Under the provisions of Sale of Goods Act, list down the exceptions to the general rule that “Non owner can not make valid transfer of property in goods”. **06**
- Q.5. a)** Decent Garments, a partnership firm admits **Choto**, a minor, to the benefits of their existing partnership. **Choto** has requested for your guidance about his position on attaining majority. **08**
- b)** As per Partnership Act, every partner has implied authority to run the business of the firm. List five acts that are not included in the implied authority of a partner unless there is any usage or custom of trade. **05**
- Q.6. a)** When statutory meeting is to be conducted for companies having share capital? **03**
- b)** Who certifies the statutory report from the company? **03**
- c)** List down three mandatory contents which are included in Director’s Report of every company. **03**

Contd. on back

- Q.7. a)** What are the quorum requirements of shareholders' meeting in case of: **06**
- (i) A public limited company
 - (ii) A single member company
 - (iii) Any other company
- b)** Briefly describe the legal provisions of Companies Ordinance, 1984 in respect of timing, place and notice period for conducting Annual General Meeting of a listed Company. **10**
- Q.8. a)** Mr. Zia has got 5% investment in share capital of **AB** Limited, a listed company. He is not satisfied with the performance of Board of Directors who were elected about 6 months ago. He wants fresh election to be held and has requested for guidance under the provisions of Companies Ordinance, 1984 in this regard. **10**
- b)** Briefly explain the provision of Companies Ordinance related to qualification & disqualification of auditors. **10**



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate | AGP | PG | PMAD | PUBLIC Sectors

Business Economics (03.11.2015)

Marks-100

Duration: 3 hrs

Additional time – 15 min for Paper Reading

[Instructions]

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Attempt all Questions

- Q.9. c)** Define Production Possibility Curve (PPC). **02**
- d)** Economy of Greenland (a country) is producing two goods sugar and pizza. **04**
Draw Production Possibility Curve for this economy. Label the points on, inside and outside the curve.
- e)** Why is PPC downward sloping and concave to the origin? **04**
- Q.10. a)** Define substitution effect with reference to indifference curve. **06**
- b)** Define the following terms:
- (i)** Complementary Goods **02**
 - (ii)** Cross Price elasticity of demand **02**
- Q.11. a)** **ABC** Electric Company only provides electricity in a Country **X**. Explain the process of Profit Maximization of **ABC** Company with the help of an appropriate diagram. **08**
- b)** What is monopolistic competition? **02**
- Q.12. c)** Define Price Discrimination & illustrate it through a diagram. Make necessary assumptions. **05**
- d)** List the conditions for Price Discrimination. **04**
- Q.13.** Explain the following concepts of National Income:
- (i)** Gross Domestic Product (GDP) **03**
 - (ii)** Gross National Product (GNP) **03**
 - (iii)** Net National Product (NNP) **03**
- Q.14. a)** Differentiate autonomous and induced investment. **03**
- b)** Suppose Govt. of Pakistan aims to increase the private investment in the country. Write down at least four suggestions for Government to stimulate investment. **07**
- Q.15. a)** Define the term “Multiplier effect”. **02**
- b)** Suppose in an economy, the marginal propensity to consume is 0.70. Trace the income generation process for four rounds of spending, using an initial injection of investment equal to Rs. 100. What will be the final amount of income generated? **06**

Contd. on back

- c) Briefly explain two limitations of multiplier effect. **04**
- Q.16.** Define Money and Capital Market. Explain two instruments of each of the markets. **10**
- Q.17.** A country named Greenland wishes to increase economic growth. Which type of monetary policy will be formulated by its Central Bank to achieve this objective? How this policy will affect the aggregate demand and output level? Illustrate your explanation with suitable diagram. **10**
- Q.18.** Define the following terms:
- (i) Balance of payment **02**
 - (ii) Terms of trade **02**
 - (iii) Devaluation of Currency **02**
 - (iv) Direct Tax **02**
 - (v) Barter system **02**



Pakistan Institute of Public Finance Accountants Winter Exam-2015

Corporate Sector

Financial Reporting (02.11.2015)

Marks - 100

Duration: 3 hrs

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

Attempt all Questions

Q.1. The following are the statements of financial position of Parent Company Limited (PCL) and its Subsidiary Company Limited (SCL) as at June 30, 2015.

	PCL	SCL
	Rs.	Rs.
Assets		
Noncurrent assets		
Tangible assets	150,400	150,050
Intangible assets	150,250	200,000
Investment in SCL	600,000	--
	900,650	350,050
Current assets	550,350	250,350
	1,451,000	600,400
Equity and liabilities		
Equity-Ordinary share capital of Rs. 10 each	500,000	200,000
Retained earnings	350,300	175,250
	850,300	375,250
Noncurrent liabilities	350,450	125,000
Current liabilities	250,250	100,150
	1,451,000	600,400

The following information is also relevant for the preparation of consolidated statement of financial position.

- PCL acquired 15,000 shares in SCL on July 01, 2013 when SCL's reserves were Rs. 225,000.
- The fair values of net assets at the date of acquisition were not materially different from their carrying values except plant whose fair value exceeded its carrying value by Rs. 25,000. The remaining useful life of this plant at the date of acquisition was four years. SCL has not incorporated the fair value adjustments in its separate financial statements and the asset is still in its use.
- The non-controlling interest was measured at fair value at the date of acquisition. The fair value of SCL's shares at date of acquisition was Rs. 25 per share.
- All the intangible assets of SCL have been recognized in its financial statements during the current year. However, they do not satisfy the definition of intangible assets under IAS 38.
- Non-current liabilities of SCL represent an interest free loan from PCL. PCL has recognized it as part of its investment in SCL.
- The current assets of PCL include Rs. 50,000 due from SCL. However, SCL's current liabilities do not include any payable to PCL. The difference is due to a cheque in transit sent by SCL which was received by PCL after year end.
- Goodwill has suffered an impairment of Rs. 30,000 by the current reporting date.

Required:

Q.2. A listed company is finalizing its financial statements for the year ended June 30, 2015 and the following issues are under consideration.

- a) The company had decided to discontinue one of its operations located in the remote areas of the country. The decision was publically announced before the year end and there is a remote chance of withdrawal of plan. The expected cost of employee redundancy to be paid is Rs. 5 million, retraining of the employees for other product lines for those to be retained is Rs. 2 million and relocation of the plant and machinery would cost Rs. 2.5 million.
- b) The company has significantly reduced the price of one of its products after the year end due to slump in the market. The cost of inventory was Rs. 10.5 million at the year end and now the expected net realizable value is only Rs. 2.5 million. The company has not made any adjustment in the accounts for decline in the net realizable value.
- c) During the year, the company has completed work on improvement of its production process. The cost incurred was as follows:

	Rs. (millions)
Feasibility study expenses	2.5
Identification of various alternatives	1.2
Identification of best alternative	0.2
Designing cost of pilot plant	0.5
Manufacturing of pilot plant	1.5

Required:

Determine the following and justify the recommended figure on the basis of relevant IFRS:

- (a) Amount of provision to be recognized in respect of costs associated with discontinuation of operations in the remote area. **05**
- (b) Value of inventory to be incorporated in the financial statements. **03**
- (c) Cost of intangible asset and research expenses to be recognized in the profit and loss account. **04**

Q.3. A listed company has provided you the following information in respect of its provision for tax for the year ended 30-06-2015:

- (a) The opening deferred tax provision is Rs. 220,000 and reflects the difference between the accounting and the tax depreciation.
- (b) The company has always been in profits and has no un-used tax losses from previous years.
- (c) The current year's profit before tax is Rs. 115,250.
- (d) During the year, the company has paid donation to unapproved institutions amounting to Rs. 25,000 and has also paid capital gain amounting to Rs. 10,000 which is not taxable under the Income Tax Ordinance, 2001.
- (e) Accounting depreciation for the year is Rs. 30,000 and tax depreciation is Rs. 25,000.
- (f) The applicable tax rates are as follows:

Year End	%age
30-06-2014	34%
30-06-2015	33%
30-06-2016	32%

Required:

Prepare the notes to financial statements in respect of:

(a) Tax expense

04

(b) Deferred tax liability

04

Q.4. A company has obtained an asset on lease under a lease contract dated July 01, 2013 under the following terms and conditions:

(a) The fair value of the asset on July 1, 2013 was Rs. 200,250.

(b) The interest rate implicit in the lease is 12% pa.

(c) The biannual rental amounting to Rs. 25,000 is payable in advance.

(d) The lease term is four years.

(e) The bargain purchase price has been agreed at Rs. 50,000.

(f) The useful life of the asset is 5 years after which it will have residual value of Rs. 20,000.

Required:

Prepare relevant extracts to statement of financial position and statement of comprehensive income for the year ended June 30, 2015 including comparative figures.

15

Q.5. A listed company has different product lines, which are listed as under, along with other information.

Product line	Revenue		Profit / (loss)	Assets
	Internal	External		
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
A	110	120	42	1,500
B	65	83	8	650
C	--	74	10	425
D	--	430	19	2,500
E	--	77	7	630
F	--	104	29	1,500
Total	175	888	115	7,205

Required:

Determine the reportable segments and give brief explanation in the light of relevant IFRS.

08

Q.6. A company has started the construction of a qualifying asset on July 1, 2014. The construction was financed initially from the company's own funds and on September 1, 2015 a specific loan amounting to Rs. 50 million was obtained for this purpose.

The company incurred an expenditure of Rs. 10 million per month which was paid in advance on the first day of each month except in December, 2014 when the construction had to be stopped for one month due to an accident. The contract was completed on February 28, 2015.

Interest was paid on the loan @ 12% per annum. The unused funds were invested @ 6% per annum. The company pays a dividend of 24% each year.

Required:

Calculate the amount of borrowing cost to be capitalized.

10

Contd. on back

Q.7. A company purchased an asset on July 01, 2012 for Rs. 150,000 and decided to depreciate it at 20% pa on straight line basis. On June 30, 2014, the asset was revalued at Rs. 170,000 and depreciation rate was revised to 30% pa on straight line basis.

On January 01, 2015 the asset was damaged beyond repair, as a result of which its capacity declined significantly. However, the company decided to continue its use. After the damage, the value in sale of this asset was Rs. 45,000 and value in use on reduced capacity basis was Rs. 40,000 with a remaining life of one and half year.

Required:

Determine the impairment loss to be recognized against revaluation surplus and profit and loss account and the value of asset on June 30, 2015.

12

Q.8. Rising Star Limited (RSL) is engaged in the manufacturing and sale of heavy duty printers. The following information has been gathered from RSL's draft financial statements for the year ended 30 June 2015:

	2015 (Rs. m)	2014 (Rs. m)
Property, plant and equipment	3,750	2,700
Retained earnings	3,400	2,100
Deferred tax liability	850	500
Profit before taxation	1,590	2,300
Taxation	640	800
Profit after taxation	950	1,500

During the review of the financial statements, the Finance Manager has discovered the following errors in the last year's financial statements:

- (i) Cost of a machine purchased on January 1, 2014 amounting to Rs. 250 million was erroneously charged to repairs. The estimated total useful life of the machine is 10 years.
- (ii) On 1 July 2014, RSL reviewed the estimated useful life of its plant and revised it from 6 years to 10 years. The plant was purchased on 1 July 2013 at a cost of Rs. 450 million.

Depreciation is provided under the straight line method. Applicable tax rate is 32%.

Required:

Prepare relevant extracts (including comparative figures) for the year ended 30 June 2015 related to the following:

10

- (a) Statement of financial position
- (b) Statement of profit or loss



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate | AGP | PG | PUBLIC Sectors

Management Accounting (03.11.2015)

Marks - 100

Duration: 3 hrs.

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

Attempt all Questions

Q.1. Aman designs, develops and sells many digital games. Games have a short lifecycle lasting around three years only. Performance of the games is measured by reference to the profits made in each of the expected three years of popularity. Aman accepts a net profit of 35% of turnover as reasonable. A rate of contribution (sale price less variable cost) of 75% is also considered acceptable.

Aman has a large centralized development department which carries out all the design work before it passes the completed game to the sales and distribution department to market and distribute the product.

Aman has developed a brand new game called Stealth and this has the following budgeted performance figures.

The selling price of Stealth will be constant Rs.30 per game. Analysis of the cost shows that a volume of 10,000 units a total cost of Rs.130,000 is expected. However at a volume of 14,000 units a total cost of Rs.150,000 is expected. If volumes exceed 15,000 units the fixed cost will increase by 50%.

Stealth's budgeted volumes are as follows:

	Year 1	Year 2	Year 3
Sales volume	8,000 units	16,000 units	4,000 units

In addition, marketing cost for Stealth will be Rs.60,000 in year one and Rs.40,000 in year two. Design and development costs are all incurred before the game is launched and has cost Rs.300,000 for Stealth. These costs are written off to the income statement as incurred (i.e. before year 1 above).

Required:

Produce the budgeted results for the game 'Stealth' and briefly assess the game's expected performance, taking into account the whole lifecycle of the game. **10**

Q.2. Nims Limited (NL) is engaged in trading business. Following data has been extracted from NL's business plan for the year ended 30 September 2015:

Sales	Rs. (000)
Actual:	
January 2015	85,000
February 2015	95,000
Forecast:	
March 2015	55,000
April 2015	60,000
May 2015	65,000
June 2015	75,000

Contd. on back

Following information is also available:

- Cash sale is 20% of the total sales. NL earns a gross profit of 25% of sales and uniformly maintains stock at 80% of the projected sale of the following month.
- 60% of the debtors are collected in the first month subsequent to sale whereas the remaining debtors are collected in the second month following sales.
- 80% of the customers deduct income tax @ 3.5% at the time of payment.
- In January 2015, NL paid Rs.2 million as 25% advance against purchase of packing machinery.
- The machinery was delivered and installed in February 2015 and was to be operated on test run for two months. 50% of the purchase price was agreed to be paid in the month following installation and the remaining amount at the end of test run.
- Creditors are paid one month after purchases.
- Administrative and selling expenses are estimated at 16% and 24% of the sales respectively and are paid in the month in which they are incurred. NL had cash and bank balances of Rs.100 million as at 28th February 2015.

Required:

Prepare a month-wise cash budget for the quarter ending 31st May 2015.

10

- Q3. (a)** Aslam & Co. has been asked to quote a price for a one-off contract. The company's management accountant has asked for your advice on the relevant costs for the contract.

The following information is available:

Materials

The contract requires 3,000 kg of material **K**, which is a material used regularly by the company in other production. The company has 2,000 kg of material **K** currently in inventory which had been purchased last month for a total cost of Rs.19,600. Since then the price per kilogram for material **K** has increased by 5%.

The contract also requires 200 kg of material **L**. There are 250 kg of material **L** in inventory which are not required for normal production. This material originally cost a total of Rs.3,125. If not used on this contract, the inventory of material **L** would be sold for Rs.11 per kg.

Labour

The contract requires 800 hours of skilled labour. Skilled labour is paid Rs.9.50 per hour. There is a shortage of skilled labour and all the available skilled labour is fully employed in the company in the manufacture of product **P**. The following information relates to product **P**:

	Rs. per unit	Rs. per unit
Selling price		100
Less:		
Skilled labour	38	
Other variable costs	22	
		(60)
		40

Contd.....

Required:

Prepare calculations showing the total relevant costs for making a decision about the contract in respect of the following cost elements:

(i) Materials **K** and **L**

05

(ii) Skilled Labour

05

- (b) The company also manufactures three joint products (**M**, **N** and **P**) from the same common process. In a typical month, output from the common process consists of 25,000 litres of **M**, 15,000 litres of **N** and 45,000 litres of **P**, in fixed proportions. The monthly costs of the common process are Rs. 480,000.

Each one of the products can be sold immediately after the common process, but each one of them can be further processed individually before being sold. The following further processing costs and selling price per litre are expected:

Product	Selling price after Common process	Selling price after Further processing	Further variable processing cost
	Rs./litre	Rs./litre	Rs./litre
M	6.25	8.40	1.75
N	5.20	6.45	0.95
P	6.80	7.45	0.85

Required:

Evaluate the viability of the common process, and determine the optimal processing plan for each of the three products, showing appropriate calculations. **10**

- Q4.** Samba makes two components, **A** and **B**, for which costs in the next year are expected to be as follows:

	A	B
Production (units)	30,000	20,000
Variable cost per unit:	Rs.	Rs.
Direct materials	6	5
Direct labour	3	9
Variable production overheads	1	3
Variable production cost	10	17

Direct labour is paid Rs.12 per hour. There will be only 19,500 hours of direct labour time available next year, and any additional components must be purchased from an external supplier.

Total fixed costs per annum are expected to be as follows:

	Rs.
Incurred as a direct consequence of making A	40,000
Incurred as a direct consequence of making B	50,000
Other fixed costs	30,000
	120,000

An external supplier has offered to supply units of **A** for Rs. 12.50 and units of **B** for Rs. 23.

Contd. on back

Required:**20**

Recommend whether Samba should shut down internal production of Component **A** or Component **B** and switch to external purchasing.

Recommend the quantities that Samba should make of the components, and the quantities it should buy externally, in order to obtain the required quantities of both components at the minimum cost. Calculate what the annual total cost will be.

Tutorial Note:

To answer part (b), you will need to consider that labour is a limiting factor.

- Q.5.** A company is considering two capital expenditure proposals. Both proposals are for similar products and both are expected to operate for four years. Only one proposal can be accepted. The following information is available:

	Profit/Loss	
	Proposal A	Proposal B
	(Rs.)	(Rs.)
Initial Investment	46,000	46,000
Year 1	6,500	4,500
Year 2	3,500	2,500
Year 3	13,500	4,500
Year 4	(1,500)	14,500
Estimated scrap value at the end of year 4	4,000	4,000

Depreciation is charged on the Straight Line basis. The company estimates its cost of capital at 20% pa.

	Discount factor
Year 1	0.833
Year 2	0.694
Year 3	0.579
Year 4	0.482

Required:

- (a) Calculate the following for both proposals:

- i) The Payback Period to one decimal place **05**
- ii) The Return on Capital Employed on Average **05**

- (b) Give two advantages for each of the methods of appraisal used in (i) above. **05**

- Q.6.** Why there is a growing emphasis on Non-financial Performance Indicators? **05**

Contd.....

Q.7. Company's Financial Statement extracts are given:

	20x7	20x8
	Rs. (m)	Rs. (m)
Turnover	2,065.0	1,788.7
Cost of sales	(1,478.6)	(1,304.0)
Gross profit	586.4	484.7
Current assets		
Inventories	119.0	109.0
Receivables (note 1)	400.9	347.4
Short-term investments	4.2	18.8
Cash at bank and in hand	48.2	48.0
	572.3	523.2

Payables: amounts falling due within one year

	20x7	20x8
	Rs. (m)	Rs. (m)
Loans and overdrafts	49.1	35.3
Corporation taxes	62.0	46.7
Dividend	19.2	14.3
Payables (note 2)	370.7	324.0
	501.0	420.3
	Rs. (m)	Rs. (m)
Net current assets	71.3	102.9
Notes:		
1 Trade receivables	329.8	285.4
2 Trade payables	236.2	210.8

Required:

- (a) Calculate liquidity and working capital ratios from the accounts of a manufacturer of products for the construction industry, and comment on the ratios. **14**
- (b) Identify the objectives of working capital management and discuss the central role of working capital management in financial management. **06**



Pakistan Institute of Public Finance Accountants
Winter Exam-2015

Corporate Sector

Audit, Assurance & Ethics (04.11.2015)

Marks-100

Duration: 3 hrs

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

Attempt all Questions

- Q.1. (a)** Briefly explain the difference between Fraud and Error. **04**
- (b)** What are the two types of Frauds identified by International Accounting Standard on Fraud-IAS240? **02**
- (c)** Identify and briefly explain the Fraud risk factors relating to mis-statement arising from fraudulent financial reporting. **06**
- Q.2.** What is an audit engagement letter? List the principal contents of an audit engagement letter. **07**
- Q.3. (a)** Explain the term “Professional Skepticism”. **03**
- (b)** Briefly describe the importance of risk assessment in the Audit Planning process. **02**
- Q.4.** ISA 500 - Audit Evidence lists down various procedures for obtaining audit evidence. Provide THREE examples of how an auditor would perform EACH of the following:
- (a)** Recalculation **03**
- (b)** Inspection of record **03**
- (c)** Inspection of assets **03**
- (d)** Analytical review **03**
- Q.5.** Hameed was engaged on the audit of Flash Lights Limited, a company engaged in the production of torch lights, energy savers and outdoor lighting equipment. He has left the following note in the file for your review:
- “I have completed all the work for the 30 June, 2015 audit and the audit report is substantially ready for us to sign in the coming week. However, on the last day of the audit when I was packing up my stuff to come back from the client, I was provided a copy of a letter from one of Flash Light’s major customers. The letter stated that the customer was facing a very difficult financial situation since a year now and was finding it difficult to pay its debts to Flash Lights and other creditors. The customer had sought waiver of an amount of Rs. 10 million from the amount owed by it to Flash Lights, stating that there was no way it could pay such amount. The letter was dated 04 August 2015. I am not sure whether this is important for our audit since the letter was received after the year end. Flash Light’s total assets are Rs. 200 million of which trade receivables amount to Rs. 45 million. Its profit for the year is Rs. 52 million. Please guide.”
- (a) Required:** **10**
- Assess the above situation and describe the actions the auditor may take in the light of the above situation in relation to ISA 560 - Subsequent Events.

Contd. on back

- (b) Discuss the possible impact on the audit report if the above situation requires an adjustment which is not accounted for by the management of Flash Lights Limited in the Financial Statements for the year ended 30 June 2015. **05**
- Q.6.** Sajid is the audit manager in a firm of Chartered Accountants. He is sending a team on the stock check of Alpha Limited. On behalf of Sajid, guide the job incharge about the procedures that need to be performed before, during and after the stock count. **10**
- Q.7.** Describe FIVE practical situations in which an auditor may be required to use the work of an expert in terms of ISA 620 - Using the work of an expert. Also identify the matters that the auditor should take into account while considering the degree of reliance to be placed on the report of the expert. **10**
- Q.8.** You work as the Audit Manger in Eternity, a firm of Chartered Accountants. One of the clients in your portfolio is Bright Electronics. Mr. Abdul Raheem, one of the partners in the firm who was the Audit Partner for Bright Electronics last year has refused to be a part of the audit team for the current year as his daughter has recently joined Bright Electronics as the CFO.
- The junior members of the audit team are surprised by the decision of Mr. Abdul Raheem as they do not understand why he is not engaging as the Audit Partner of Bright Electronics. In response to a query from the audit team, you are required to:
- (a) Describe the term ‘Self-Interest Threat’ and how the situation at Bright Electronics creates a self-interest threat. **06**
- (b) Describe SIX other situations which may lead to an auditor facing Self Interest Threat to independence. **09**
- Q.9.** You are part of the audit team responsible for conducting the audit of Tahira Textile Limited, a company engaged in processing of cotton and manufacturing of unstitched cloth. You have been assigned the task of performing tests of controls on the system of purchases. **10**
- Tahira Textile usually purchases cotton from farmers once every month. Chemicals are purchased from nearby chemical factories as and when the requirement arises.
- Describe the controls you would expect to see in Tahira Textile in relation to purchases of cotton and chemicals.
- Q.10.** The advancement of technology in the last two decades has resulted in significant changes in the way auditors prepare and maintain their working papers. **04**
- Explain the advantages of computer based audit working papers.



Pakistan Institute of Public Finance Accountants

Winter Exam-2015

Corporate Sector

Taxation (05.11.2015)

Marks-100

Duration: 3 hrs

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

Attempt all Questions

- Q.1. (a)** Define 'Direct Taxes' and 'Indirect Taxes' and give three examples of each. **07**
- (b)** What do you understand from 'Federal Consolidation Fund' and 'Public Account of the Federation' as specified in the Constitution of Pakistan? **05**
- Q.2.** Define the term 'Company' in the light of the Income Tax Ordinance, 2001. **06**
- Q.3.** Compute Taxable Income and Tax Liability of Mr. Khanjee, who has provided the following information pertaining to tax year 2016: **20**

	Rs.
Salary	1,550,000
Bonus	144,000
Performance award	56,000
Dividend Gross (Zakat Rs. 2,500 Income Tax Rs. 2,000)	20,000
Monthly house rent paid direct by the company to Landlord @	24,000
Income from poultry farm	50,000

Company has provided him two maintained cars. One is used exclusively for the company's business and the other is used by Mr. Khanjee's family. The cost of each car is Rs. 800,000.

Mr. Khanjee has paid the following amounts, during the year:

Life Insurance	20,000
Accident insurance	6,000
Donation to an approved charity organization	20,000
Zakat paid	20,000
Provident fund contribution	155,000
Tax deducted at source by the company	50,000

- Q.4.** Briefly describe the rules related to 'Carry Forward' and 'Set off of losses' under the Income Tax Ordinance, 2001. **15**
- Q.5. (a)** List any ten persons who are required to file a return of income under section 114 of the Income Tax Ordinance, 2001. **05**
- (b)** In the light of section 120 of the Income Tax Ordinance, 2001 discuss the provisions of the law in case the return filed by a taxpayer is not complete. **05**

Contd. on back

- Q.6.** Karwan Limited is registered under the Sales Tax Act, 1990 as a manufacturer. It has provided you the following information for the month of October, 2015: **13**

	Rs. (m)
Export Sales – manufactured goods	30
Local sales of exempt manufactured goods	20
Taxable supplies – manufactured goods	180
Purchases:	
▪ Local purchases of raw material from:	
- Registered persons	160
- Unregistered persons	50
▪ Import of raw material	40

All the above amounts are exclusive of Sales Tax. Imports have been stated at C&F value and are subject to customs duty at the rate of 10%.

Required:

Compute the Sales Tax Liability along with input tax to be carried forward (if any) for the month of October, 2015. Normal sales tax rate is 17% of the value of supply.

- Q.7. (a)** Describe the various basis on which the federal excise duty may be levied under the Federal Excise Act, 2005 **04**
- (b)** Define the term ‘manufacturer’ in the light of the Federal Excise Act, 2005 **04**
- Q.8. (a)** Define the term ‘Goods’ in the light of Sales Tax Act, 1990. **03**
- (b)** Under which cases ‘open market price’ is to be taken as the value of supply? **03**
- (c)** List the circumstances under which a person registered under the Sales Tax Act, 1990 may be de-registered and discuss the consequences of de-registration. **10**
