Winter Exam-2013

(Intermediate)

Financial Accounting (04.11.2013)

Duration: 3 hrs. **Marks-100**

(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)** In light of conceptual framework for financial reporting, explain the following:

i. Recognition of assets **5**

ii. Recognition of liabilities **5**

b) Green Limited purchased raw materials for Rs. 2,500,000 less a rebate of 5%. It paid Rs. 75,000 as import duty. Import subsidy available to Green limited is Rs. 25,000. The company paid freight expense Rs. 125,000 and clearing agent charges Rs. 12,500. Company can claim subsidy up to 20% of freight as freight subsidy. In addition, company has to pay yearly Rs. 60,000 warehouse rent and Rs. 48,000 to security guard on account of salary.

Required:

Determine the Cost of Raw Material. **7**

Q.2. Credit Department of **AR Limited** has decided to allow credit facility of Rs. 2 million to **Customer A** and **Customer B**. However, Deputy General Manager (DGM) of department has reservations on extending the credit facility to **Customer A**. Following information is available to credit department for both customers.

	Customer A	Customer B
	Rs.	Rs.
Sales	29,000,000	59,000,000
Cost of sales	24,000,000	48,000,000
Stock in trade	4,500,000	17,000,000
Trade debtors	2,000,000	12,000,000
Short term advances deposit and prepayments	5,000,000	10,500,000
Cash and bank balances	650,000	
Bank overdraft		500,000
Trade creditors	6,300,000	13,000,000
Other current liabilities	1,000,000	7,500,000

Required:

You as a Financial Analyst have to prepare a report for Credit Department which include calculation of relevant ratios, interpretation of ratios and your conclusion on reservations of DGM. **19**

Contd. on back

Q.3. Following information is available from the record of a sole proprietor for the year ended 30 June 2013:

	Rs.
Opening balances	
Stock in trade	750,000
Trade debtors	150,000
Cash at bank	55,000
Cash in hand	25,000
Non- current assets	45,000
Accounts payable	600,000
Transactions during the year	
Credit sales	1,500,000
Cash deposited into bank	200,000
Bank receipts from debtors	1,350,000
Payments to trade creditors	750,000
Expenses paid through bank	225,000
Cash withdrawals from bank	140,000
Closing balances	
Cash in hand	45,000
Trade creditors	350,000

Other information:

- There were no accruals and prepayments
- All payments are made by cheque except petty cash expenses
- All the customers pay by cheque except cash sales
- Gross profit ratio is 20% on cost
- No other information is available

Required:

a) Prepare Cash Book (cash and bank account) of the sole proprietor. **10**

b) Calculate the Gross Profit Figure for the year ended 30 June 2013. **05**

Q.4. **a)** With reference to IAS-7, define the terms operating activities, investing activities and financing activities? **06**

b) Give four examples of cash flows arising from financing activities **04**

Q.5. Sunshine (Pvt.) Limited started business on 1 July 2010. Following is the detail of addition and deletion in fixed assets of the company during the two years.

Date	Description	Rs.
1 July 2010	Cash Purchase of office equipments	700,000
1 July 2010	Cash Purchase of furniture and fixtures	200,000
15 August 2011	Cash Purchase of furniture and fixtures	100,000
15 January 2012	Cash receipt on sale of office equipments (cost of assets were Rs. 200,000)	300,000

Other information:

- Rate of depreciation is 10% on straight line basis for furniture and fixture whereas 20% for office equipments on reducing balance basis.
- Full month depreciation is charged in the month of purchase whereas no depreciation is charged in the month of sale.
- Company management, on 30 June 2012, decided to classify any repair expense on office equipments as capital expenses.

Contd…..

Required:

a) Prepare following ledger accounts for the year ended 30 June 2012. **11**

- **(i)** Office equipment cost account
- **(ii)** Office Equipment accumulated depreciation account
- **(iii)** Furniture and fixture cost account
- **(iv)** Furniture and fixture accumulated depreciation account
- **(v)** Assets Disposal account

b) Evaluate the effect on final account of management's decision of classify repair expenses on office equipments as capital expenditure. **04**

Q.6. Following is the Trial Balance of **AS limited** for the year ended 30 June 2013.

	Debit	**Credit**
	(Rs.)	
Land and building - at cost	48,000,000	
Machinery – at cost	35,720,000	
Software – at cost	2,000,000	
Accumulated depreciation- Land and building (June 30, 2012)		8,000,000
Accumulated depreciation – Machinery (June 30, 2012)		9,770,000
Accumulated amortization – software (June 30,2012)		800,000
Trade debtors	9,260,000	
Ordinary share capital		28,000,000
Retained earnings		2,250,000
Sales		90,000,000
Purchases	32,000,000	
Direct Labor	15,340,000	
Manufacturing overheads	6,000,000	
Stock in trade (1 July 2012)	9,580,000	
Administrative expenses	15,000,000	
Selling expenses	4,900,000	
Financial charges	60,000	
Cash and bank		2,600,000
Trade payables		5,600,000
Accrued expenses		3,840,000
Dividend payable (interim dividend)		1,400,000
10% redeemable preference shares		7,600,000
Long term loan		18,000,000
	177,860,000	**177,860,000**

Contd. on back

Following relevant information is available:

- The value of stock in trade as at 30 June 2013 was Rs. 8,000,000.
- On January 01, 2012 the company received a long term loan from a bank, payable in 10 equal installments of Rs. 1.8 million plus interest @ 15% per annum. The first installment will due on December 31, 2013.
- Financial charges given in Trial Balance are bank charges only.
- The provision for current taxation, after considering all adjustments, for the year ended 30 June 2013 is Rs. 3,200,000.
- On August 15, 2013 the board of directors proposed final dividend @15% for the year ended 30 June 2013.
- Depreciation is charged on straight line basis@ 10% on machinery and 5% on land and building. 70% of depreciation is allocated to manufacturing, 20% to Administrative and 10% to selling expenses. Amortization of software is charged on straight line basis @20%. Amortization expense is charged directly to administrative expenses.

Required:

a) Prepare Balance Sheet of AS limited for the year ended 30 June 2013. **14**

b) Prepare Profit and Loss Account of AS limited for the year ended 30 June 2013. **10**

****

Winter Exam-2013

(Intermediate)

Performance Measurement (05.11.2013)

Duration: 3 hrs. **Marks-100**

[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 information provides detail of the Costs, Volume and Cost Driver for 2012 of **Precision Ltd:**

	Product X	Product Y	Product Z	Total
Production and Sales (units)	30,000	20,000	8,000	
Raw material usage (units)	5	5	11	
Direct material cost (Rs.)	25	20	11	1,238,000
Direct labor hours	1 ⅓	2	1	88,000
Machine hours	1 ⅓	1	2	76,000
Direct Labour Cost (Rs.)	8	12	6	
Number of production runs	3	7	20	30
Number of deliveries	9	3	20	32
Number of receipts (2*7) ***(a*)***	15	35	220	270
Number of production orders	15	10	25	50

Overhead costs	**Rs.**
Set-up	30,000
Machines	760,000
Receiving	435,000
Packing	250,000
Engineering	373,000
	1,848,000

(a*) The company operates a just in time inventory policy, and receives each component once per production run.

In the past the company has allocated overheads to production on the basis of direct labour hours. However, majority of overheads are related to machine hours rather than direct labour hours. The company has recently redesigned its cost system by recovering overheads using two volume-related bases: machine hours and a material handling overhead rate for recovering overheads of the receiving department. Both the current and the previous cost system reported low profit margins for product X, which is the Company's highest selling product. Company is contemplating over the implementation of Activity Based Costing System.

Required:

Compute product cost of Product X using an activity-based costing system **(20)**

Q.2. **a)** Briefly mention the assumptions of Cost-Volume Profit analysis. **(04)**

b) Victor Company manufactures and sells machine parts. The Income Statement of the company for the year 2012 is given below:

	Total (Rs.)
Sales	1,200,000
Variable Expense	900,000
Fixed Expenses	240,000
Net Income	60,000

Contd. on back

Company sells per machine part at Rs. 60.

Company is anxious to improve the company's profit performance. Company hires you as a Management Consultant and asked for the following information:

(i) Compute the company's break-even point in both units and in Sales Rs. **(05)**

(ii) If the company's sales increase by Rs. 400,000 in year 2013 and company's cost patterns remain unchanged, by how much will the company's net income will increase? **(05)**

(iii) If the Management wants to earn a net income of Rs. 90,000 in year 2013. How many units will have to be sold to meet this target net income? **(03)**

(iv) Refer to data in the table above compute the company's margin of safety in amount. **(03)**

Q.3. a) Define Responsibility Accounting. **(04)**

b) Define Balance Score Card. **(03)**

c) Briefly mention stages involved in the design of Activity Based Costing. **(04)**

d) Novelty Company keeps careful track of the time relating to orders and their production. During the most recent quarter, the following average time were recorded for each unit or order:

	Days
Wait Time	17
Inspection time	0.4
Process time	2.0
Move time	0.6
Queue time	5.0

Goods are shipped as soon as production is completed.

(i) Compute Throughput Time. **(03)**

(ii) Compute the Manufacturing Cycle Efficiency. **(03)**

(iii) Compute the Delivery Cycle Time. **(03)**

Q.4. a) Kiran Ltd. manufactures three products Alpha, Beta & Gamma. Planned production for the three months to 31 Mar 20x2 is: Alpha 10,000 units, Beta 7,000 units, Gamma 4,000 units.

The following information for each production is available:

Per unit	**Alpha**	**Beta**	**Gamma**
Raw materials: Delta	5kilos	6kilos	4kilos
Man hours (@ Rs.8 per hour)	10	8	12
Other variable expenses (Rs.)	115	144	78
Selling price (Rs.)	800	880	670

Delta costs Rs. 100 per kilo & it has now been ascertained that while 108,000 kilos are needed to produce budgeted output, only 96,000 kilos will be available in the three months to 31 Mar 20x2. Fixed overheads amount to Rs. 300,000 per month.

Contd. ……

Required:

(i) Prepare a statement showing the ranking of each product in the order of the contribution yielded per unit of the scarce resource. **(09)**

(ii) Prepare a statement showing the number of units to be produced which will maximize the net profit & also calculate the net profit for the three months to 31 Mar 20X2. **(06)**

b) Define the following Costs: **(05)**

i) Direct Cost **ii)** Product Cost **iii)** Sunk Cost **iv)** Period Cost **v)** Opportunity Cost

Q.5. a) Efficient Ltd is a leading company in chemical sector. Company is producer of single chemical product which is used in the textile sector. Summary of production budget of the company for four week period is as under:

Production quantity	240,000 units

Production cost:

Material	336,000	Rs. 4.10 per kg
Direct Labour	216,000 hours	Rs. 4.5 per hour
Variable cost	Rs. 475,200	
Fixed overhead	Rs. 1,521,600	

Variable overheads are absorbed at a predetermined direct labour hour rate. Fixed overheads are absorbed at a predetermined rate per unit of output.

During the four week period the actual production was 220,000 units which incurred the following costs:

Material:	313,060 kg	Costing:	Rs. 1,245,980
Direct Labour:	194,920 Hours	Costing:	Rs. 886,886
Variable overheads:	Rs. 433,700		
Fixed overheads:	Rs. 1,501,240		

Required:

(i) Material usage variance **(04)**

(ii) Wage rate variance **(04)**

(iii) Labour efficiency variance **(04)**

b) Efficient Ltd has reported the following results for the year 2012 operations:

Sales	Rs. 25 Million
Net Operating Income	Rs. 3 Million
Average Operating assets	Rs. 10 Million

Required:

(i) Calculate the Profitability Margin, Assets Turnover Rate and Return on Investment of the Company. **(05)**

(ii) If Company has set a required rate of return on average operating assets of 25%. What is the residual Income of Efficient Ltd for the Year 2012? **(03)**

****

Winter Exam-2013
(Intermediate)
Business Laws & Taxation (07.11.2013)

Duration: 3 hrs. **Marks-100**

[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.
- **Use separate Answer Script for Taxation Paper.**
- Start each question from fresh page.

Attempt all Questions

Business Laws (70 Marks)

Q.1. **a)** Define the term "Precedent" and list down its types. **(05)**

b) List down the types of cases/matters dealt with by; **(05)**

i) Family Courts

ii) Industrial Tribunal

Q.2. **a)** List down the ways in which an Offer (proposal) can be revoked. **(05)**

b) When is the consent said to be free? What happen if free consent in a contract is missing? **(03)**

c) Rehan gave his car to Riaz for repair for an agreed sum of Rs. 3,000/-. After repair Riaz refused to give the Car back until Rehan pays previous dues of Rs. 1,000/-. **(02)**

Is Riaz justified? Support your answer with reasons.

Q.3. **a)** Differentiate between the terms "Conditions" and "Warranties" as per Sale of Goods Act 1930 **(03)**

b) Who may cross a cheque under Negotiation Instrument Act 1881? **(05)**

c) Define Contract of Sale under the Sale of Goods Act, 1930. **(02)**

Q.4. **a)** What acts, a Partner can not do under implied authority? **(04)**

b) A and B were partners in a firm. They admitted C as a partner on the payment of Rs.500,000/- as a premium for a fixed term of 5 years. The firm dissolved after 3 years. C claimed refund of premium. **(06)**

Is C entitled for repayment of premium, if yes for how much amount?

In which situations, repayment of premium may be refused by A and B?

Q.5. **a)** What are the personal information a subscriber would state while signing Memorandum of Association? **(05)**

b) List down any five situations in which a company may be allowed to change its object clause. **(05)**

Contd. on back

Q.6. **a)** The AGM of Raja Industries Limited (a listed company) was scheduled to be held at 9:00 a.m. However, the quorum was not present in time and therefore the meeting started at 9:30 a.m. Based on this, answer the following:- **(05)**

i) A meeting was delayed by 30 minutes. Would this meeting be valid?

ii) What are legal provisions for delay in commencement of AGM?

iii) What happen if the quorum is not present by 10:00 o'clock?

b) What is the time period for holding a Statutory Meeting? **(03)**

c) What are certifications, auditor of a company is required to make in respect of Statutory Report? **(04)**

Q.7. **a)** A group of your friends are doing partnership business. You advised them to form a company in respect of doing business through partnership. They asked you to explain them, advantages in this regard. List down any 5 advantages for their consultation. **(05)**

b) A shareholder of Ravi Mills Limited requested the company for a copy of Memorandum and Articles of Association. The Company Secretary refused to provide the same. **(03)**

Is Company Secretary justified in his refusal? State the legal provisions in this regard.

****

Taxation (30 Marks)

Use separate Answer Script for this Paper

Q.1. Define the following terms with reference to Income Tax Ordinance 2001.

(i) Income **(02)**

(ii) Person **(02)**

(iii) Principal Officer **(02)**

Q.2. What option available for a taxpayer in respect of salary received in arrears, as a result of which the person is chargeable to tax at higher rates. **(08)**

Q.3. Who is liable to pay Sales Tax Under Sales Tax Act 1990? **(04)**

Q.4. Define the term Taxable Supply under Sales Tax Act 1990? **(04)**

Q.5. Muhammad & Co. has submitted the following data for the month: **(08)**

	Rs.
Local taxable sales to registered person	1,000,000
Local taxable sales to un-registered person	5,000,000
Exports	2,500,000
Exempt supplies	500,000
Purchases (Registered supplier)	6,500,000
Purchases (Unregistered supplier)	500,000
Purchase returns (Registered)	650,000

Required:

Compute the Sales Tax Liability for the month (assuming rate of tax @ 17%).

****

Winter Exam-2013

(Intermediate)

Bus. Com. & Beh. Studies (06.11.2013)

Duration: 3 hrs. **Marks-100**

[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)** What are four different types of Request Business letters? **02**

(b) You are Regional Manager of PABX Bank (Pvt.) Ltd. Your bank is opening a new branch in a business area. Write a Sales letter to 1,000 business outlets in the area. You are free to assume necessary details. **10**

Q.2. The accounts dept. is facing problems with the presently installed Accounting Software. As head of Finance department, you are assigned the tasks of investigating the issue and putting up your recommendations. Prepare a Recommendation Justification Report for GM Finance. **10**

Q.3. What is a win-win conflict resolution strategy? How does it benefit an organization? **04**

Q.4. "Employees attitudes can be changed and sometimes it is in the best interests of management to try to do so". What could be the barriers to change? **04**

Q.5. What mistakes are made by managers while using traditional negotiation approaches? **05**

Q.6. How decisions are made in an organization using Delphi Technique? **10**

Q.7. What is an organizational culture and what are its main characteristics? **08**

Q.8. Write an essay on "Impact of Social Media Networking on Society". **12**

Q.9. Write a formal report on the increasing cases of mishandling of office equipment, suggesting corrective measures and future action plan to control it. You must assume necessary details. Your report must contain all parts of a formal report. **15**

Q.10. You are Secretary of the Board of Directors meeting. Draft minutes of the 56th meeting of BOD held on June 05, 2013 at, 40-F, P.E.C.H.S, Head office. The agenda included staff layoff, appointment of Director Finance, approval of marketing activities, research and development proposal. Assume all necessary details including discussion on the agenda points. **20**

Note that reproduction of agenda items with mentioning discussions held in the meeting would not be accepted as answer.

****

Winter Exam-2013
(Final)
Financial Reporting (04.11.2013)

Duration: 3 hrs. **Marks-100**

[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. XYZ has purchased an asset costing Rs. 200,000 on January 01, 2011. The useful life of the asset is 5 years and entity uses straight line method for charging depreciation. The company revalues its assets at each year end and the revalued amount at December 31, 2011 is Rs. 240,000. On December 31, 2012 the fair value of asset is Rs. 160,000.

The useful life of asset is however not changed. The company can claim 50% tax allowance in first year in addition to normal depreciation on reducing balance basis at 25% per year.

The applicable tax rate for the company is 35% for 2011 and 2012.

Required:

Provide relevant extract to statement of financial position and statement of comprehensive income for the year ended December 31, 2011 and 2012. **12**

Q.2. Pakistan Corporate Leasing Limited (Leasing Company) is a listed company engaged in leasing of equipments.

During the year ended December 31, 2012 it had entered into many lease contracts with individual as well as corporate clients. The detail of one of its contracts is as under:-

Equipment having fair value of Rs. 507,780 has been purchased by Khalid Limited and the leasing company has made payment on behalf of Khalid Limited on September 30, 2012. The rental will due in arrear but a deposit of Rs. 100,000 has been received in advance. The lease term is for five years and annual rental is Rs. 134,000. The commission of Rs. 20,000 has also been paid to the sales persons. The lessee has the bargain purchase option to purchase the asset at the end of lease term. The expected fair value of asset at the end of lease term is Rs. 50,000 however, the asset is being offered to lessee at Rs. 20,000.

There is a clause in the lease agreement that if the asset has been used beyond normal use the lessee has to make payment of Rs. 10,000 per month. The usage will be assessed at the end of each month. The usage has been in excess of normal usage in two of the three months.

The interest rate leasing company normally use for sale type lease is 21.5% and for finance type lease is 18%.

Required:

Prepare extract of Financial Statements for the contract. **15**

Q.3. M/S XYZ has a plant used to produce goods, major part of which is exported to a neighboring country. Recently the tension starts on the borders of that country, which restricted the export to that country. This fact forced the company to apply impairment test on the plant at June 30, 2013. The plant was purchased on July 01, 2008 for Rs. 120,000. The asset had a useful life of 10 years and residual value of Rs. 20,000. The asset was being depreciated using straight line method. The impairment test also forced the company to review the remaining useful life of the asset. A professional valuer determined the remaining useful life of only two years from the date of impairment test. The recoverable value is Rs. 30,000 at the date of impairment test. **10**

Required:

Provide extract of Financial Statements for the year ended June 30, 2013.

Contd. on back

Q.4. The statements of financial position of PASHA Limited (**P**) and its subsidiary SAEED (Private) Limited (**S**) at 30 June 2013 are as follows:

Statements of Financial Position as at 30 June 2013

	P	S
ASSETS	**Rs. (000)**	**Rs. (000)**
Non-Current Assets		
Property, plant and equipment	16,575	3,460
Investment in SAEED	3,760	--
Investment in ASAD	600	--
	20,935	3,460
Current assets		
Inventory	6,680	2,120
Trade receivables	5,586	855
Cash	274	45
	12,540	3,020
Total Assets	33,475	6,480
EQUITY AND LIABILITIES		
Ordinary share capital	12,000	1,000
Share premium	2,500	400
Retained earnings	8,810	2,660
	23,310	4,060
Non-current liabilities		
10% loan notes	--	1,000
Current liabilities		
Accounts payable	9,165	1,220
Accrued interest	-	100
Declared dividends	1,000	100
	10,165	1,420
Total Equity and Liabilities	33,475	6,480

1. ***P** acquired 60,000 shares having par value Rs. 10 each, in **S** on July 01, 2012 at a cost of Rs. 3.76 million. The cost of investment includes Rs. 0.2 million paid by **P** as commission to a broker for finalizing the deal with the old shareholders of **S**. **P** has also agreed to pay Rs. 10 per share if the average profit of the company over five years has remained more than Rs. 1.2 million per year. The fair value of contingent consideration has been Rs. 2.2 million but the fair value has reduced to Rs. 2.1 million at the reporting date.*

   *The balance on the retained earnings and share premium of **S** at the date of acquisition was Rs. 2 million and Rs. 0.4 million respectively.*

   ***P** has the policy of measuring Non-controlling interest at fair value and fair value was Rs. 1.0 million at the date of acquisition.*
2. ***S** has a contingent liability of Rs. 0.2 million disclosed at the date of acquisition and subsequently settled at Rs. 0.25 million. **S** has charged this as an expense in current year.*
3. *At 31 December 2012 **P** also made an investment of Rs. 0.6 million by acquiring 25% holding in **ASAD** (Private) Limited (**A**). The Fair value of net assets of **A** was Rs. 3 million and by the current reporting date has increased to Rs. 3.8 million. **P** has not incorporated any profits from **A**. However, a dividend of Rs. 0.2 million has been declared by **A** during the year and duly recorded by **P** in its separate financial statements.*
4. *The fair value of the Property Plant & Equipment of **S** at 01 July 2012 was considered to be Rs. 0.5 million greater than shown in **S**'s Books at that time. Depreciation is charged at 20% on straight line basis. The fair value gain has not been reflected in the books of **S** and asset still exists with **S**.*
5. ***P** has not accounted for its share of dividend receivable from **S**.*
6. *Consolidated goodwill is subjected to an annual impairment review. No impairment has been detected to date.*

Required:

Prepare the Consolidated Statement of financial position for the **P group** on June 30, 2013. **20**

Contd. ……..

Q.5. Junaid and Jamal were in partnership sharing profits and losses in the ratio of 5:3. The statement of financial position as at June 30, 2013 was as under: -

ASSETS		Rs.
Non-current assets		
Freehold premises	160,000	
Plant and machinery	55,000	
		215,000
Current assets		
Inventory	160,000	
Trade receivables	206,000	
Cash	70,000	
		436,000
		651,000
CAPITAL AND LIABILITIES		
Capital		
Junaid	200,000	
Jamal	100,000	
		300,000
Non-current liabilities		
Notes payable		150,000
Current liabilities		
Trade creditors	155,000	
Bank overdraft	46,000	
		201,000
		651,000

- On July 01, 2013 they decided to convert into a private limited company named JJ (Private) Limited.
- The private limited company will take over all the assets and liabilities except cash. The purchase consideration will be settled through payment of cash of Rs. 500,000 and balance amount through issuance of 25,000 shares in JJ (Private) Limited at Rs. 15 each. The par value per share is Rs. 10 each. The share capital in the new company will be shared in the same ratio as they share profit in the partnership.
- The fair values of assets which differs with carrying values are as under: -

	Rs.
Freehold premises	175,000
Plant and machinery	60,500
Inventory	175,500
Trade receivables	185,400

- The partnership has developed a brand over several years not recognized by it. However; the fair value of brand determined by a specialist is Rs. 150,000.

Required:

a) Realization account in the books of old partnership. **06**

b) Partner's capital accounts in the books of old partnership. **05**

c) Opening statement of financial position of JJ (Private) Limited. **07**

Contd....

Q.6. M/S AKS Consulting provide services for development of HR Manual, Software Implementation and conduct management courses on biannual basis for its clients.

After the year ended June 30, 2013 you have been hired in the accounts department and came across the following transactions took place in the year then ended.

a) During the year on March 01, 2013 a contract for development of HR manual was signed with one of the clients for Rs. 1.2 million. The total budgeted hours for this job were 250 hours. By the year end 200 hours have been spent and fresh estimate shows that another 100 will be required to accomplish the job. However, Rs. 850,000 has been received.

b) There has been a contract signed for implementation of software and after sale services for Rs. 1 million which includes Rs. 200,000 for the services to be provided over two year. The contract commences from April 01, 2013.

c) The company offers management courses on biannual basis, however, tuition services provided for four months only. The course starts from May 01, and ends on August 31. Total fee received for the courses started from May 01 have been Rs. 2.5 million.

Required:

Calculate the amount of revenue to be recognized for each of the transactions referred above. **15**

Q.7. ABC is a large construction company and entered into many construction contracts during the year. Contract X out of its total contracts has not been completed by the year ended December 31, 2012. The detail of the contracts is as under: -

	X
	Rs.(000)
Total expected revenue	250
Cost to date	60
Total expected cost	140
Progress billings to date	60
Receipts to date	40
Value of work certified till November 30, 2012	30
The value of work completed but not certified	10

ABC agreed to complete the contract within two years of the start of the contract. The contract was probable to be completed within two years and efficiency bonus of Rs. 10,000 is probable. The expected amount of bonus is not included in the total expected revenue.

Required:

Provide extract to the Financial Statement for the year ended December 31, 2013. **10**

****

Winter Exam-2013

(Final)

Management Accounting (05.11.2013)

Duration: 3 hrs. **Marks-100**

[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. Ali & Co. is a medium sized medical research company, engaged in the development of new medical treatments. To date company has invested Rs. 250,000 in the development of a new product called 'Gravia', which can be recovered by selling the formula to an outsider. It is estimated that it will take further two years of development and testing before 'Gravia' is approved by medical industry regulators.
The company believes that it can sell the patent for 'Gravia' to a multinational pharmaceutical company for Rs. 1,000,000, when it has been fully developed. The Directors of the Ali & Co. are currently reviewing the Gravia project, as there is some concern about the size of the required finance to complete the development work.

Following information is relevant to the project:

- To complete the development, Ali & Co. will need to acquire additional type **A** material expected cost Rs. 150,000 per annum over the next two years.
- Type **B** material will also be required. Currently there is sufficient stock of type **B** material to last for the two years of the project. The material originally cost Rs. 50,000. Its replacement cost is Rs. 75,000. Instead of using it on this project, it could immediately be sold as scrap for Rs. 20,000. It has no further alternative use.
- If it is decided to continue with Gravia project, specialist equipment will need to be purchased immediately for Rs. 100,000. This equipment could eventually be sold at the end of the project for Rs. 25,000.
- Two chemists currently employed for an annual salary of Rs. 20,000 each will be made redundant whenever Gravia project ends. Redundancy payments are expected to be one full year's salary each.
- Laboratory technicians currently employed by Ali & Co. are working on Gravia project at a total annual cost of Rs. 85,000. The company has a variety of other projects to which the technicians could be transferred whenever the Gravia project ends.
- Annual fixed overheads are Rs. 100,000, of which Rs. 60,000 are general overheads, and remaining Rs. 40,000 are directly associated with the project.
- Interest cost on borrowed finance is Rs. 20,000 per annum.
- All cash flows occur at the end of the year unless otherwise stated.
- The discount rate used by Ali & Co. to appraise its projects is 10%.

Required:

a) Briefly explain the main principles used to identify relevant costs for decision making using examples from the above question. **05**

b) Calculate the projects net present value and recommend whether the company should proceed with the project. **15**

Q.2. Briefly explain factors that a company should take into account when deciding on the mix of debt and equity finance. **05**

Contd. on back

Q.3. Ahmad & Co. an international soft drink company has recently acquired Fizz & Co., which produces high quality soft drinks for its local domestic market. Following the acquisition, the internal audit department of Ahmad & Co. examined the capital investment appraisal procedures in Fizz & Co.

The report summary was critical of processes in use and concluded that:

- There is no apparent structure or formalized processes for evaluation of capital investment projects.
- Post completion controls do not exist in any meaningful way.

Required:

a) As a Financial Assistant, advise the Finance Director, identifying and briefly explaining the major stages in evaluating and controlling expenditure projects. **05**

b) Identify and briefly explain the benefits of Post Completion Audit. **05**

Q.4. You are the management accountant of a publishing and printing company which has been asked to quote for the production of a programme for the local village. The work would be carried out in addition to the normal work of the company. Because of the existing commitments, some weekend working would be required to complete the printing of the programme.

Following cost estimate based on required resources specified by the production manager:

	Rs.
Direct material – paper (book value)	5,000
-inks (purchase price)	2,400
Direct labour – skilled 250 hours @ Rs.4	1,000
-unskilled 100 hours @ Rs.3.50	350
Variable overhead 350 hours @ Rs.4	1,400
Printing press depreciation 200 hours	500
Fixed production costs 350 hours @ Rs.6	2,100
Estimated department cost	400
Total Cost	13,150

Following notes are relevant:

- *The paper to be used is currently in inventory at value of Rs. 5,000. It is of an unusual colour which has not been used for sometime. The replacement price of the paper is Rs. 8,000, whilst the scrap value of that in inventory is Rs. 2,500. The production manager does not foresee any alternative use for the paper if is not used for the village fair programme.*
- *The inks required are not held in inventory .They would have to be purchased in bulk at a cost of Rs. 3,000. 80% of the ink purchased would be used in printing the programmes. No other use is foreseen for the remainder.*
- *Skilled direct labour is in short supply and to accommodate the printing of the programmes, 50% of the time required would be worked at weekends for which a premium of 25% above the normal hourly rate is paid. The normal hourly rate is Rs. 4/hour.*
- *Variable overheads represent the cost of operating the printing press and binding machines.*
- *When not being used by the company, the printing press is hired to outside company for Rs. 6/hour. This earns a contribution of Rs. 3/hour. There is unlimited demand for this facility.*
- *Fixed overheads are those incurred by and absorbed into production, using an hourly rate based on budgeted activity level.*
- *The costs of the estimating department represents time spent in discussions with the village fair committee concerning the printing of its programme.*

Required:

a) Prepare a revised cost estimate using the opportunity cost approach, showing clearly the minimum price that the company should accept for the order. Give reasons for each resource valuation in your estimate. **16**

b) Explain the relevance of opportunity cost in decision making. **04**

Q.5. Asad & Co. produces a standard meal for consumption by airline passengers, which it sells to various airlines throughout Asia. At present company is operating at full capacity and it is not possible to increase sales above the current level unless further investment is made in premises and equipment. The company is considering to acquire further finance of Rs. 2 million by issuing new debentures carrying interest rate of 10% to cater for an increase in capacity by 20%. The increase in capacity utilization would result in a reduction in variable cost by 20% and increase in fixed cost by Rs. 0.2 million per annum.

The current sale price of meal is Rs. 2/meal.

Income Statement for the year ending 31 May 20X1

	Rs. (m)
Revenue (2 million meals)	4
Less variable cost	(2)
Less fixed cost	(1)
Profit before finance cost and taxation	1
Less finance cost	(0.2)
Profit before tax	0.8
Income tax 25%	(0.2)
Profit after tax	0.6

Statement of Financial Position as at 31 May 20X1

Equity:	**(Rs. m)**
5 million ordinary shares (par value 50 paisa)	2.5
Share premium	2
Retained earnings	0.5
Medium term finance:	
10% debentures 20Y0	2

Required:

a) Prepare a Projected Income Statement for the Company. **08**

b) Calculate for year 20X1 & 20X2: **02**

(i) Debt Equity

(ii) Interest Coverage Ratio

c) What additional information would be required in order to make analysis effective? **05**

Q.6. Kalaam & Co. operates in ice cream business, but its sales are highly linked with the weather conditions, following are the forecasted sales and relevant weather data in respect of sales:

		Rs.
Weather	**Probability**	**Expected Sales Revenue**
Good	25%	100,000
Normal	50%	200,000
Bad	25%	50,000

Required:

Calculate the Expected Revenue for Kalaam & Co. **05**

Contd. on back

Q.7. You are the trainee accountant for Yousaf & Co. and provided following data:

	Rs.
Revenue	2,500,000
Average receivables	410,000
Materials purchases	630,000
Production staff wages	450,000
Other production overheads	350,000
Sales overheads	320,000
Net profit margin	30%
Average inventory:	
Finished goods	325,000
Work in progress (65% complete)	195,000
Raw materials	133,000
Average payables (purchases)	73,000

Required:

Calculate the Cash Operating Cycle for Yousaf & Co. **10**

Q.8. Salman & Co. is a research based company which manufactures a wide variety of drugs for use in hospitals. The purchasing manager has recently been approached by a new manufacturer based in a newly industrialized country who has offered to produce three of the drugs at their factory. The following cost and price information has been provided:

Drug	**FairyOxide**	**SpritOlite**	**Goblinex**
Production units	20,000	40,000	80,000
	Rs.	**Rs.**	**Rs.**
Direct material cost/ unit	0.80	1.00	0.40
Direct labour cost/unit	1.60	1.80	0.80
Direct expense cost/unit	0.40	0.60	0.20
Fixed cost/unit	0.80	1.00	0.40
Selling price each	4.00	5.00	2.00
Imported price	2.75	4.20	2.00

Required:

a) Calculate the profit figure the company will make by producing all the drugs itself. **04**

b) Recommend to the management whether any drugs should be purchased on the basis of cost only. **04**

c) How will your recommendation in part(b) above affect the profit and by how much? **02**

d) Explain the other factors that management should consider before making a final decision. **05**

****

Winter Exam-2013
(Final)
Auditing (06.11.2013)

Duration: 3 hrs. **Marks-100**

[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. In relation to auditor's Liability:

(a) Describe the situations where the auditor may be held criminally liable. **05**

(b) Discuss the ways to manage auditor's liability. **05**

Q.2. As per ISA 315 'Identifying and understanding the risks of material misstatement through understanding the entity and its environment', describe what components of an entity need to be understood by the auditor as part of understanding the entity and performing risk assessment procedures. **10**

Q.3. **(a)** State the procedures laid down in the Companies Ordinance 1984 for the removal of auditor. **08**

(b) State the rights of auditor laid down in the ISAs and Companies Ordinance 1984. **05**

Q.4. Anastasia Fashion Limited is a company that runs a chain of shops all over Pakistan specializing in ladies footwear, handbags and accessories. As of 30 June 2013, it had 175 stores located in the country (of which 5 stores were opened during financial year 2013). The company started its operations in 1975 and 25 stores were opened in the first 5 years of operation. These 25 stores are now old and required refurbishment in order to remain attractive for potential customers in the areas. The company records sales as of the end of each week on the basis of Weekly Sales Reports submitted by the Store Managers. Cash received against these sales and banked in the nearest branch where the company has a bank account, is then reconciled with the sales as recorded above, in the subsequent week. A large part of the company's assets include furniture, fittings and computer equipment installed at retail stores.

(a) Describe five control risks in the sales system of Anastasia Fashion Limited. **05**

(b) State what work should be carried out by an auditor to ensure appropriate existence, completeness and valuation of fixed assets of Anastasia Fashion Limited. **07**

Q.5. Describe the requirements of ISA 320 in relation to materiality in an audit of Financial Statements. **10**

Q.6. With the advent of technology and increasing use of automated tools to capture, process and record information, there is a need for auditors to update the evidence-gathering process. Computer Assisted Audit Techniques (CAATs) are a highly effective method in this regard.

(a) Explain the term Computer Assisted Audit Techniques (CAATs). **02**

(b) Differentiate, by giving appropriated examples, between test data and audit software. **06**

(c) State THREE advantages and THREE dis-advantages / practical problems in the use of CAATs. **06**

Contd. on back

Q.7. State along with reasons, the course of action an auditor should take and implications on the audit opinion in each of the following situations (each situation is to be treated separately).

(a) You are performing the audit of Hopilink Telecom for the year ended 30 June 2013.The company's property, plant and equipment accounts for 40% of its total assets and its depreciation expense for 2013 is almost 10% of total revenue. You have verified the depreciation expense and are satisfied with the amount recorded. The audit report for the year ended 30 June 2012 (audited by another auditor) was unmodified; however, you discover that no depreciation has been charged on property, plant and equipment during the year ended 30 June 2012. **04**

(b) You were appointed the auditor of Fresh Juices Limited on 15 January 2013. The company's audit year end date is 31 December 2012 so you have been unable to perform an inventory count as at that date. Inventory is the largest item in the Balance Sheet of Fresh Juices Limited. Today is 16 January 2013. **04**

(c) You are reading the draft Directors' report which will be printed along with the Financial Statements and Audit Report as part of the Annual Report document for 2013 of Extreme Sports (Private) Limited. The Directors' report states that the company's revenue has grown by 25% to reach Rs. 1.5 billion. The amount of sales for the year as per your audit working papers amount to Rs. 1 billion. **03**

Q.8. **(a)** Briefly describe the five fundamental principles as laid down in the IFAC Code of Ethics for Accountants. **05**

(b) State five situations which lead to the Self Interest Threat to the independence of an auditor. **05**

Q.9. In relation to ISA 530 'Audit Sampling', briefly describe the following terms:

(a) Audit Sampling **02**

(b) Anomalous error **02**

(c) Sampling Risk **02**

(d) Statistical Sampling **02**

(e) Stratification **02**

****