



**Pakistan Institute
of Public Finance Accountants**

Corporate Sector

**Model
Solutions**

Summer Exam-2018

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Business Laws

(Level-2)



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Ans.1 Sec 5 of Companies Act 2017:

Jurisdiction of the Court and creation of Benches.—

- (1) The Court having jurisdiction under this Act shall be the High Court having jurisdiction in the place at which the registered office of the company is situate.
- (2) Notwithstanding anything contained in any other law no civil court as provided in the Code of Civil Procedure, 1908 (Act V of 1908) or any other court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Court is empowered to determine by or under this Act.
- (3) For the purposes of jurisdiction to wind up companies, the expression —registered office means the place which has longest been the registered office of the company during the one hundred and eighty days immediately preceding the presentation of the petition for winding up.
- (4) There shall be, in each High Court, one or more benches on permanent basis, each to be known as the Company Bench, to be constituted by the Chief Justice of the High Court to exercise the jurisdiction vested in the High Court under this Act:
 - i. Provided that Benches constituted under the Companies Ordinance, 1984 (XLVII of 1984), shall continue to function accordingly unless otherwise notified by the respective Chief Justice of the High Court:
 - ii. Provided further that provisions of section 6 shall be effective from the date of notification by the Chief Justice of the respective High Court within 6 months from the date of the commencement of this Act.
- (5) There shall be a Registrar to be known as —Registrar of the Company Bench duly notified by the Chief Justice of the respective High Court who shall be assisted by such other officers as may be assigned by the Chief Justice of the respective High Court.
- (6) The Registrar of the Company Bench shall perform all the functions assigned to it under this Act including all ministerial and administrative business of the Company Bench such as the receipt of petitions, applications, written replies, issuance of notices, service of summons and such other functions or duties as may be prescribed under section 423.
- (7) The Chief Justice of the respective High Court, if deemed appropriate, may also establish a secretariat in each Company Bench of the respective High Court in such form and manner to provide secretariat support and to perform such functions as may be prescribed under section 423.

Sec 6 of Companies Act 2017:

Procedure of the Court and appeal:

- (1) Notwithstanding anything contained in any other law for the time being in force all written submissions to the Court under this Act shall be filed with the Registrar of the Company Bench.
- (2) For the purposes of this Act, written submissions shall, inter alia, include
 - (a) a petition or application setting out a concise statement of facts, grounds and the relief claimed;
 - (b) a written reply with particulars of set off, if any;
 - (c) an affidavit of facts by the petitioner or applicant, or respondent, as the case may be, including affidavits, if required, of other persons in support of the case, duly attested by the oath commissioner, or as may be provided under the rules;
 - (d) any other relevant documents in possession of the petitioner or applicant or respondent, as the case may be;
 - (e) any application for discovery of documents or interim injunction, if



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- required;
- (f) a list of any case law along with a summary of the same on which the petitioner or applicant is placing reliance;
 - (g) address for effecting service, mobile number, email and fax or any other mode notified by the Court; and
 - (h) any other document as may be required by the Registrar of the Company Bench.
- (3) Where any petition or application is filed under any provision of this Act, summons may be issued by the Registrar of the Company Bench along with a copy of the petition or application and the documents annexed therewith and the same shall be served on the respondent through the bailiff or process server of the Court, through registered post, acknowledgement due, by courier and by publication in one English language and one Urdu language daily newspaper and, in addition, if so directed by the Court through electronic modes, and the service duly effected through any one of the modes mentioned under this sub-section shall be deemed to be valid service. Explanation.—electronic modes means service of summons on a party or other person by electronic transmission through devices such as, facsimile, email, or in such other form or mode as may be notified by the Court.
- (4) The respondent shall file a written reply and particulars of set-off, if any, as set out in sub-section (2) of this section with the concerned Registrar of the Company Bench within thirty days from the date of first service through any of the modes as laid down in sub-section (3).
- (5) Where the respondent fails to file the written reply within the time prescribed in sub-section (4), a report shall be submitted by the Registrar of the Company Bench before the Court and the Court may pass necessary orders to proceed expert and announce the final order on the basis of the documents available on record.
- (6) The Registrar of the Company Bench, on completion of receipt of all written submissions and after ensuring that all copies of such written submissions are duly supplied to the parties as per procedure laid down by the Court, shall present the case file to the Court on a day fixed under notice to the parties, within forty-five days of the first service of notices or such extended time as may be granted by the Court.
- (7) The Court after consulting the counsel of the parties shall fix a date and allocate time for hearing of the case.
- (8) No adjournment shall be granted once the Court has fixed a date of hearing under sub-section (7) and it will be duty of the parties to ensure the presence of their respective counselor, in absence of the counsel make alternate arrangements: Provided that only in exceptional circumstances beyond control of a party, the Court may grant another opportunity of hearing subject to the payment of an amount of rupees ten thousand or such higher amount as may be determined by the Court as costs to be paid to the Court.
- (9) The Court shall treat affidavits, counter affidavits and other documents filed by the parties to the proceedings as evidence and decide the matter on the basis of the documents and affidavits placed before the Court, in a summary manner and pass final orders within the time stipulated in sub-section (11).
- (10) In exceptional circumstances where the Court is of the view that any issue of facts requires cross examination, the Court may order attendance of the relevant deponent or deponents for the purposes of cross examination by such opposing party or parties as the Court deems fit and for the purposes of this section the affidavit filed by such deponent shall be considered as his examination-in-chief:



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Provided that—

- (i) the Court may refer the matter to the Registrar of the Company Bench or any other person for recording of cross examination of the deponent who shall complete recording of cross examination within thirty days from the date of the order of the Court, or such extended time as may be allowed by the Court which shall not be more than fifteen days on payment of rupees ten thousand or such higher amount as may be determined by the Court as costs payable to the Court and to submit a report accordingly;
 - (ii) all questions and answers along with any objections raised by any party shall be duly recorded in writing; and
 - (iii) the Registrar of the Company Bench shall have all the powers of the Civil Court under the Code of Civil Procedure, 1908 (V of 1908) for the purposes of execution of service and summoning of deponents and conducting cross examination in accordance with the directions of the Court.
- (11) The petition presented before the Court shall be decided within a period of one hundred and twenty days from the date of presentation of the case and for this purpose the Court may, if it is in the interest of justice, conduct the proceedings on a day to day basis and if the Court deems fit it may impose costs which may extend to one hundred thousand rupees per day or such higher amount as the Court may determine against any party to the proceeding causing the delay.
- (12) The Court may, at any time, take notice of serious misstatements and material non-disclosure of facts by any party to the proceedings and dismiss the petition or application or close the right of defence of the respondent with costs of the proceedings and impose a fine which may extend to one hundred thousand rupees whichever is higher and pass a final order.
- (13) Notwithstanding anything contained in this section, the Registrar of the Company Bench shall place any application for interim relief including any interlocutory order before the Court for adjudication immediately upon its filing.
- (14) Any person aggrieved by any judgment or final order of the Court passed in its original jurisdiction under this Act may, within sixty days, file a petition for leave to appeal in the Supreme Court of Pakistan: Provided that no appeal or petition shall lie against any interlocutory order of the Court.
- (15) Save as otherwise expressly provided under this Act, the provisions of the Qanun-e-Shahadat (Order) 1984 (P.O. No. X of 1984) and the Code of Civil Procedure, 1908 (Act V of 1908) shall not apply to the proceedings under this section except to such extent as the Court may determine in its discretion.

Total Marks 10

Ans.2 Disclosure was mandatory because according to sec 213 of Companies Act 2017

- (a)** (a) Yes, the disclosure was mandatory:
Disclosure to members of directors' interest in contract appointing chief executive or secretary. —
- (1) Every director of a company who is in any way, whether directly or indirectly, concerned or interested, in any appointment or contract for the appointment of a chief executive, whole-time director or secretary of the company shall disclose the nature of his interest or concern at a meeting of the board in which such appointment or contract is to be approved and the interested director shall not participate or vote in the proceedings of the board.
- (2) All contracts entered into by a company for the appointment of a chief executive, whole-time director or secretary shall be kept at the registered office of the company.
- (3) Every contract required to be kept under sub-section (2) must be open to inspection by any member of the company without charge.



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(b) (4) Any member of the company is entitled, on request and on payment of such fee as may be fixed by the company, to be provided with a copy of any such contract. The copy must be provided within seven days after the request is received by the company.

(5) Any contravention or default in complying with requirements under this section shall be an offence liable to a penalty of level 1 on the standard scale.

So in given Scenario Company can file a suit and Kamran will be liable to pay as mentioned above.

Total Marks 10

Ans.3 Sec 28 of Sale of Goods Act:

Sale by one of joint owners:

- a) Yes, contract is valid
- b) Yes, Zainab has right to sell as she is owner
- c) Yes, Zara got good title

If one of several joint owners of goods has the sole possession of them by permission of the co-owners, the property in the goods is transferred to any person who buys them of such joint owner in good faith and has not at the time of the contract of sale notice that the seller has not authority to sell.

So in above case contract is valid and Zainab have the right to sell car to her friend. This is the second exception to the rule that a man cannot make a valid sale of goods which do not belong to them. In this case Zara got good title because she purchases bonafide.

Total Marks 10

Ans.4 Sec 54 of Contract Act 1872:

Effect of default as to that promise which should be first performed, in contract consisting of reciprocal promises :

When a contract consists of reciprocal promises, such that one of them cannot be performed, or that its performance cannot be claimed till the other has been performed, and the promisor of the promise last mentioned fails to perform it, such promisor cannot claim the performance of the reciprocal promise, and must make compensation to the other party to the contract for any loss which such other party may sustain by the non-performance of the contract.

So Sami is not obliged to pay Ammar.

Total Marks 10

Ans.5 Sec 27 of Companies Act 2017:

Memorandum of company limited by shares:

In the case of a company limited by shares

(A) the memorandum shall state—

(i) the name of the company with the word —Limited as last word of the name in the case of a public limited company, the parenthesis and words —(Private) Limited as last words of the name in the case of a private limited company, and the parenthesis and words —(SMC-Private) Limited as last words of the name in the case of a single member company;



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(ii) the Province or the part of Pakistan not forming part of a Province, as the case may be, in which the registered office of the company is to be situate;

(iii) principal line of business: Provided that—

(a) the existing companies shall continue with their existing memorandum of association and the object stated at serial number 1 of the object clause shall be treated as the principal line of business;

(b) if the object stated at serial number 1 of the object clause is not the principal line of business of the company, it shall be required to intimate to the registrar their principal line of business within such time from commencement of this Act and in the form as may be specified. A revised copy of the memorandum of association indicating therein its principal business at serial number 1 of the object clause shall also be furnished to the registrar; and

(c) the existing companies or the companies to be formed to carry on or engage in any business which is subject to a licence or registration, permission or approval shall mention the businesses as required under the respective law and the rules and regulations made thereunder;

(iv) an undertaking as may be specified;

(v) that the liability of the members is limited; and

(vi) the amount of share capital with which the company proposes to be registered and the division thereof into shares of a fixed amount;

(B) no subscriber of the memorandum shall take less than one share; and

(C) each subscriber of the memorandum shall write opposite to his name the number of shares he agrees to take.

According to sec 32 of Companies Act 2017:

Alteration of memorandum:

(1) Subject to the provisions of this Act, a company may by special resolution alter the provisions of its memorandum so as to

(a) change the place of its registered office from.—

(i) one Province to another Province or Islamabad Capital Territory and vice versa; or
(ii) one Province or Islamabad Capital Territory to a part of Pakistan not forming part of a Province and vice versa; or

(b) change its principal line of business; or

(c) adopt any business activity or any change therein which is subject to licence, registration, permission or approval under any law.

(2) The alteration shall not take effect until and except in so far as it is confirmed by the Commission on petition: Provided that an alteration so as to change its principal line of business shall not require confirmation by the Commission.

(3) A copy of the order confirming the alteration duly certified by an authorised officer of the Commission shall be forwarded to the company and to the registrar within seven days from the date of the order.

(4) A copy of the memorandum of association as altered pursuant to the order under this section shall within thirty days from the date of the order be filed by the company with the registrar, who shall register the same and issue a certificate which shall be conclusive evidence that all the requirements of this Act with respect to the alteration and the confirmation thereof have been complied with and thenceforth the memorandum so filed shall be the memorandum of the company



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Provided that the Commission may by order, at any time on an application by the company, on sufficient cause shown extend the time for the filing of memorandum with the registrar under this section for such period as it thinks proper.

(5) Where the alteration involves a transfer of registered office from the jurisdiction of one company registration office to another, physical record of the company shall be transferred to the registrar concerned of the company registration office in whose jurisdiction the registered office of the company has been shifted.

(6) Where the alteration involves change in principal line of business, the company shall file the amended memorandum of association with the registrar within thirty days, which shall be recorded for the purposes of this Act.

Total Marks 10

Ans.6 Director includes any person occupying the position of a director, by whatever name called.

According to sec 153 of Companies Act 2017:

Ineligibility of certain persons to become director:

A person shall not be eligible for appointment as a director of a company, if he —

- (a) is a minor;
- (b) is of unsound mind;
- (c) has applied to be adjudicated as an insolvent and his application is pending;
- (d) is an undischarged insolvent;
- (e) has been convicted by a court of law for an offence involving moral turpitude;
- (f) has been debarred from holding such office under any provision of this Act;
- (g) is lacking fiduciary behaviour and a declaration to this effect has been made by the Court under section 212 at any time during the preceding five years;
- (h) does not hold National Tax Number as per the provisions of Income Tax Ordinance, 2001 (XLIX of 2001): Provided that the Commission may grant exemption from the requirement of this clause as may be notified.
- (i) is not a member: Provided that clause (i) shall not apply in the case of,—
 - (i) a person representing a member which is not a natural person;
 - (ii) a whole-time director who is an employee of the company;
 - (iii) a chief executive; or
 - (iv) a person representing a creditor or other special interests by virtue of contractual arrangements;
- (j) has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution;
- (k) is engaged in the business of brokerage, or is a spouse of such person or is a sponsor, director or officer of a corporate brokerage house: Provided that clauses (j) and (k) shall be applicable only in case of listed companies.

Sec 161 of Companies Act 2017:

Term of office of directors.—

(1) A director elected under sections 159 or 162 shall hold office for a period of three years unless he earlier resigns, vacates office due to fresh election required under section 162 as the case may be, becomes disqualified from being a director or otherwise ceases to hold office: Provided that the term of office of directors of a company limited by



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guarantee and not having share capital may be a period of less than three years as provided in the articles of association of a company.

(2) Any casual vacancy occurring among the directors may be filled up by the directors and the person so appointed shall hold office for the remainder of the term of the director in whose place he is appointed.

Total Marks 10

Ans.7 According to sec 130 of companies Act 2017:

05

(a) Annual return:

Any contravention or default in complying with requirement of this section shall be an offence liable— (a) in case of a listed company, to a penalty of level 2 on the standard scale; and (b) in case of any other company, to a penalty of level 1 on the standard scale.

(b) Protection:

05

In case of listed company, company may apply for protection with registrar requesting for extension the period of filing not exceeding 15 days.

Total Marks 10

Ans.8 Sec 8 of the Sale of Goods Act:

Goods perishing before sale but after agreement to sell.--- Where there is an agreement to sell specific goods, and subsequently the goods without any fault on the part of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided.

However if only part of goods agreed to be sold perish, the contract becomes void, if it is indivisible. If the contract is divisible, the contract remains valid as regards to the part available in good condition.

Total Marks 10

Ans.9 Sec 37 and 38 of the Contract Act 1872:

05

(a)

The parties to a contract must either perform, or offer to perform, their respective promises, unless such performance is dispensed with or excused under the provisions of this Act, or of any other law. Promises bind the representatives of the promisors in case of the death of such promisors before performance, unless a contrary intention appears from the contract

Sec 38 of the Contract Act 1872:

Effect of refusal to accept offer of performance :

Where a promisor has made an offer of performance to the promisee, and the offer has not been accepted, the promisor is not responsible for nonperformance, nor does he thereby lose his rights under the contract. Every such offer must fulfil the following conditions:—

(1) it must be unconditional:

(2) it must be made at a proper time and place, and under such circumstances that the person to whom it is made may have a reasonable opportunity of ascertaining that the person by whom it is made is able and willing there and then to do the whole of what he is bound by his promise to do:

(3) if the offer is an offer to deliver anything to the promisee, the promisee must have a reasonable opportunity of seeing that the thing offered is the thing which the promisor is bound by his promise to deliver. An offer to one of several joint promises has the same legal consequences as an offer to all of them.



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- (b) **Sec 188 of the Contract Act 1872:** 03
Extent of agent's authority 188. An agent having an authority to do an act has authority to do every lawful thing which is necessary in order to do such act. An agent having an authority to carry on a business has authority to do every lawful thing necessary for the purpose, or usually done in the course of conducting such business.
- (c) **Sec178 of the Contract Act 1872:** 02
- By mercantile agent
 - Person is possession under voidable contact before rescission
 - Pledger having limited interest
 - Seller in possession of goods after sale
 - Buyer in possession of goods under agreement to sell
 - Co-owners

Total Marks 10

Ans.10 Precedents can sometimes be altered or avoided by judges. 05

Overruling a precedent:

Precedents established by a lower court can be overruled by a higher court. The higher court sets aside the decision of the lower court and the precedent ceases to apply.

Making a distinction between cases:

A judge may avoid a precedent by identifying facts in the current case that make it different from a previous case. If the facts are sufficiently different, the judge in the current case does not have to follow the precedent of the previous case.

Judges who do not wish to apply a precedent in a particular case may therefore try to identify distinguishing features in the case, and use these to justify a decision that ignores the precedent.

- (b) A Money Bill shall originate in the National Assembly and after it has been passed by the Assembly it shall without being transmitted to the Senate be presented to the President for assent. 05

Total Marks 10



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(4) The company shall file with the registrar notice of the exercise of any power referred to in sub-section (1) within fifteen days from the exercise thereof.

(5) Any violation of this section shall be an offence liable to a penalty of level 1 on the standard scale.

Total Marks 10

Business Economics

(Level-2)



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Q.1. Economic Resources: Economic resources are the goods or services available to individuals and businesses used to produce valuable consumer products. The four economic resources are land, labor, capital and entrepreneurship. Economic Resources can be categorized into:

Land: Land is the economic resource encompassing natural resources found within an economy. This resource includes timber, land, fisheries, farms and other similar natural resources.

Labor: Labor represents the human capital available to transform raw or national resources into consumer goods. Human capital includes all able-bodied individuals capable of working in the economy and providing various services to other individuals or businesses.

Capital: Capital has two economic definitions as a factor of production. Capital can represent the monetary resources companies use to purchase natural resources, land and other capital goods. Capital also represents the major physical assets individuals and companies use when producing goods or services. These assets include buildings, production facilities, equipment, vehicles and other similar items.

Entrepreneur: Entrepreneurs usually have an idea for creating a valuable good or service and assume the risk involved with transforming economic resources into consumer products.

Definition of Economic resources: 2 Marks,

Categories of economic resources: 4x2= 8 Marks

Total Marks 10

Q.2. Law of Diminishing Marginal Utility: The law states that by increasing units of consumption of a particular good, marginal utility decreases, holding all other factors constant.

04

Exceptions

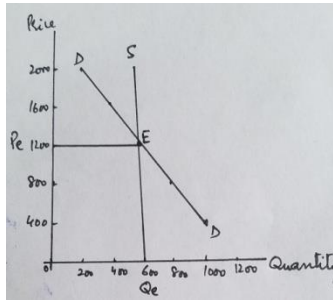
This law has following exceptions:

1. **Wealth and Money:** This law does not apply on wealth and money. As a person holds more wealth or money, marginal utility increases rather than to fall.
2. **Knowledge:** Knowledge is also an exception of this law. As a person acquires more and more knowledge, his satisfaction increases rather than to fall.
3. **Hobbies:** These are an exception to the law. Because in such case, the MU of a hobby increases as more and more units are consumed. For example; for a person, who loves to collect books, will experience increasing MU as he collects more of them.
4. **Drugs and narcotics:** They are another example of those goods whose MU increases upon further consumption. Addicts derive extreme joy as they consume more of these drugs.



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(b)



06

The supply curve is unusual because the quantity supplied of the tickets at local picture theatre remain the same at 600 units when the prices rise. It is against to law of supply which stated that other things being equal, when the price of good rises, the quantity supplied of the good also raises, and when the price falls, the quantity supplied falls as well.

If the quantity of tickets at local picture theatre is limited, it might be true because the supply of seats cannot be increased in response of increase in price.

ii. The equilibrium price is Rs. 1200, as at Rs.1200 the quantity demanded of tickets is equal to quantity supplied of tickets, i.e. 600.

a) Law of Diminishing marginal utility: 1 Mark, Exceptions of law: 3 Marks

- b) i. Diagram: 3 Marks, Explanation: 2 Marks
ii) Equilibrium price and Quantity: 1 Mark

Total Marks

10

Q.3. Injections: Injections are additions to expenditure from outside of the circular flow itself. Injections boost the circular flow and include Investment, Government spending and exports. 05

- (i) **Investments:** Investment means increase in stock of capital over the time. Investment is an addition into the circular flow by firms.
- (ii) **Government spending:** Government makes heavy expenditures to purchase goods and services within the economy. Funds spent by governments inject money to the circle.
- (iii) **Exports:** All goods and services produced by firms are not domestically consumed. Some of goods and services are exported to foreign countries. Sales to abroad result in an injection to the circle.

Withdrawals: Withdrawals are some element of income in the circular flow that is not passed on as expenditure. Withdrawals also known as Leakages reduce the circular flow and include Savings, Taxes and Imports. 05

- (i) **Savings:** Saving is that part of income which is not spent on goods and services. Saving is a Leakage from circular flow of income.
- (ii) **Taxation:** Tax is a compulsory contribution of individuals and firm to government to perform different functions. Tax is outflow of funds from the circle.
- (iii) **Imports:** Purchases from abroad result in money leaving the circle. If injections are greater than withdrawals, the national income will rise and if withdrawals are greater than injections, the national income will decrease.

At equilibrium Injections are equal to Withdrawals.

Injections; definitions and explanation: 5 Marks, Withdrawals, definition and explanation: 5 Marks

Total Marks

10



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Q.4 Money Supply: The total amount of money which is in circulation and deposited in the banks is called money supply. The following are the components of money supply:

Transactional money: that which is used to buy and sell things within an economy

Checking accounts: Money that is in peoples' accounts that they have immediate access to

Savings deposits: Money that belongs to people, but which they cannot access immediately

Large time assets: such as institutional money market funds.

The key variable amongst these different sources of money is their level of liquidity. We see that the types of money here are categorized by their liquidity, with large time assets being the most illiquid, and transactional money, by its nature, already being fully liquid. One of the most important points to understand is that to hold any value, the supply of money must be *finite*.

b) Definition of Money supply: 2 Marks, Components of Money Supply: 4 Marks

Total Marks 06

Q.5. Monetary Policy: A policy of central bank to control inflation or to overcome recession by managing the money supply is called monetary policy. **02**

(b) Quota: A fixed amount of a commodity in volume or value is allowed to be transacted/imported. A fixed ratio (%) of any value is allowed. **02**

(c) Opportunity Cost: The cost of one economic decision expressed in terms of the next best alternative foregone. The opportunity cost of buying a car, is what else that money could have bought **02**

Total Marks 06

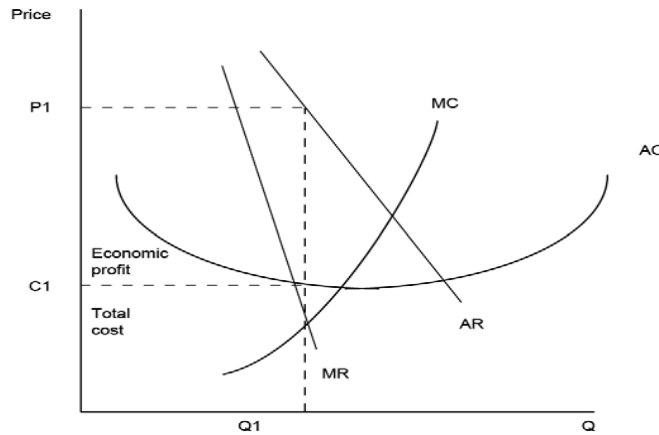
Q.6. Perfect Competition: A market structure in which a large number of small firms compete each other with homogenous products. Under perfect completion a firm is a small part of whole industry and it cannot influence the price. A firm decides only its output level at market price to maximize profit. It has following characteristics: **06**

- 1. Large numbers of buyers and sellers:** No single buyer or seller is able to influence the market price for the product – this is only possible through high volume which dilutes any power any single party may have.
- 2. Homogenous product:** An identical product means no individual producer can charge more for a good that could be considered superior.
- 3. Free entry and exit:** Firms can leave and enter as determined by fluctuations in profit.
- 4. Perfect knowledge of prices:** Buyers and sellers are fully aware of prices in the market.
- 5. Transport costs are negligible:** This doesn't impact on the market choices of the economic agents.
- 6. Perfect factor mobility:** Factors of production are perfectly mobile, allowing free long-term adjustments to be made by the firm.

(b) As BCD CHEMICALS is a monopolist firm, it will earn abnormal profit in the long run. A firm is in equilibrium position at the output where $MC=MR$, and MC cuts MR from below. **04**
BCD CHEMICAL's long run equilibrium is shown by the following diagram:



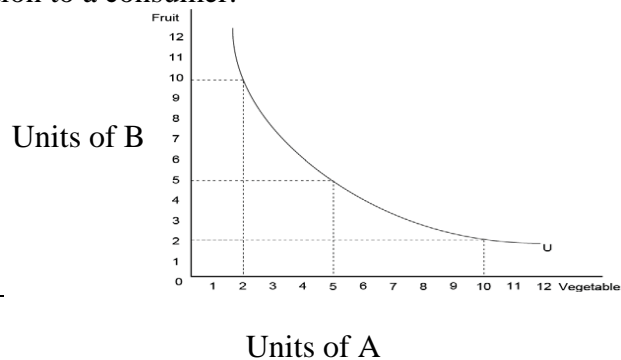
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- a) Perfect Competition; definition: 2 Marks, Features of Perfect competition with brief explanation: 4 Marks
- b) Correctly labeled diagram: 4 Marks

Total Marks 10

Q.7. Indifference curve: It is a curve that shows different combinations of two goods which give equal satisfaction to a consumer. 06



Assumptions of Indifference Curve

1. **Consumer is rational:** Consumers' behaviour is consistent.
2. **Utility is ordinal:** A consumer prefers one basket of goods to another.
3. **Diminishing marginal rate of substitution:** The rate at which an individual must give up "Good A" to obtain an extra unit of "Good B" whilst keeping their overall utility constant, occurs at a diminishing rate.
4. **Consistency of choice:** The choice remains constant over time periods
5. **Preferences are not self-contradictory:** If a customer prefers A to B, and B to C, then he must therefore prefer A to C.
6. **Goods are substitutable:** Utility can be maintained by exchanging the quantity of goods consumed in any quantity.

(b)

Units of Labor	Total Product	Marginal Product	Average Product
6	120	-	20
7	147	27	21
8	168	21	21
9	180	12	20

04

- a) Definition of IC: 2 Mark, Assumptions of IC: 4 Marks
- b) Complete filling of missing values= 4 marks (1 mark for one missing value)

Total Marks 10



Summer Exam-2018 Solutions – Economics

Q.8. Determinants of saving

04

(a)

1. **Level of income:** Saving is determined by the level of income. There is a direct relation between the two i.e., savings increase as the level of income increases.
2. **Net wealth:** A household's net wealth is the value of all assets owned by a household, less any liabilities or debt owed. A decrease in net wealth would make consumers less inclined to spend and more inclined to save at each income level.
3. **Interest rate:** Interest is the reward for increasing savings by reducing consumption and the amount paid by borrowers for current spending power. An increase in interest rate, other things held constant, will lead to less spending on things that are purchased on credit and thus higher savings.
4. **Objective and institutional factors:** Factors such as political stability and security of property encourage people to save more. Similarly, an established system of banks and other financial institutions promotes savings by way of interest earning motives.

(b) $K = 1/1-MPC$

06

$$= 1/1-0.8 = 5$$

$$K = \frac{\Delta Y}{\Delta I}$$

Initial injection of investment = Rs. 5000

Total income generated = 5,000 × 5

= Rs. 25,000

Time Rounds	Change in Y	Change in 'C'	Change in 'S'
1 st	5000	5000*0.8= 4000	1000
2 nd	4000	3200	800
3 rd	3200	2560	640
4 th	2560	2048	512
.	.	.	.
.	.	.	.
.	.	.	.
Nth			
Total	25000	20,000	5,000

a) Determinants of saving: 4 Marks

b) Calculation of total income generation: 2 Marks, Income generation process up to four rounds: 4 Marks

Total Marks

10

Q.9. Frictional unemployment: Frictional Unemployment is when people are searching for or

04

(a)

are transitioning from one job to another. This can often just be temporary, and can take a while whilst people's skill sets adapt.

Structural unemployment: Structural Unemployment is unemployment that arises through inefficiencies in the labour market. This often occurs through a misalignment of skill sets in certain geographical locations. It is more prominent if labour is unwilling to move geographically in search of new work, or if firms are unwilling to take on people with different skill sets. It is due to change in economic structure and technological change.



Summer Exam-2018 Solutions – Economics

(b) Costs of inflation

06

This then means that there are a series of costs that are associated with high inflation.

1. **Income redistribution:** Higher inflation can have a regressive effect on lower income families, and elderly people in society. Especially, if the price of food and utilities increases drastically.
2. **Fall in real incomes:** If wages are cut (to help tackle inflation) then this means that real incomes have reduced.
3. **Negative real interest rates:** If the savings interest rate is lower than inflation, than those who rely on savings as their income will become poorer.
4. **Cost of borrowing:** as we shall see in a later section, in response to high inflation, governments may increase the interest rates. This will increase the cost of businesses getting a loan, which may stifle investment.
5. **Business competitiveness:** if prices in one country are higher than another, then when selling comparable goods, the country with lower inflation will have a lower price and therefore have much better international competitiveness.
6. **Business uncertainty:** with high and volatile inflation, businesses are less likely to commit to big projects, as they are uncertain as to the economic future.

a) Frictional and Structural unemployment: $2+2=4$ Marks

b) Cost of Inflation: $4 \times 1.5 = 6$ Marks

Total Marks

10

Q.10. Functions of the central bank

08

(a)

The responsibilities of the central bank are generally universal, however there will be some variation between countries.

1. **Sole supplier of currency:** The central bank has the responsibility of supplying the notes and coins throughout a country in order to bring uniformity, but also to exercise greater control over it.
2. **Banker to the government:** It offers advice and also funding for governments looking to fund projects, in the same way a commercial bank would to its customers. The central bank will organize and advise upon the public debts of a country through working with a government.
3. **Banker to the banks:** By holding cash reserves from each bank for safe keeping, the central bank brings a level of protection to the banks. Having a centralized cash reserve yields greater confidence in the system, and a better buffer against financial shocks. Further, a central bank can offer a counseling service to commercial banks if ever they find themselves in financial difficulty, and in need of advice.
4. **Lender of last resort:** If a commercial bank is unable to use other sources to meet its financial requirements then they use the central bank. This brings greater liquidity to the system, and helps protect savers' deposits.
5. **Exchange rate controls:** The central bank has control over a country's foreign currency, and gold reserves. These are used in times to manipulate the exchange rates with other countries, and also other policy objectives, such as the balance of payments.
6. **Clearing agent:** As all commercial banks have accounts with the central bank, when undertaking transactions, they can do so within the central bank, reducing the necessity of issuing and transferring cash.



Summer Exam-2018 Solutions – Economics

- (b) **Balance of Payments:** The balance of payments, also known as balance of international payments and abbreviated B.O.P. or BOP. It is the record of all economic transactions between the residents of the country and of the world in a particular period (over a quarter of a year or more commonly over a year). 10

It is made up by a combination, in a country, of:

- The current account
- The capital account
- Official Financing Account

When all components of the BOP accounts are included they must sum to zero with no overall surplus or deficit.

The current account

The current account is made up of different components which aggregate to give a final balance. We shall now look in more detail as to what parts make it up.

- (i) **Trade in goods:** Items that include the import and export of finished goods, semi-finished goods, and component parts for assembly.
- (ii) **Trade in services:** These services include tourism, financial services and consultancy.
- (iii) **Investment income:** Overseas activity that leads to a flow of money back to the

country. For example, interest received from direct investment, the activities of subsidiaries, and dividends earned from owning shares in foreign firms.

- (iv) **Transfers:** Items moved between countries such as overseas aid.

The capital and financing account

These accounts record the flow of capital and finances between the domestic country and the rest of the world. These types of flows include:

- (i) **Real foreign direct investment:** a domestic firm setting up a factory in another country, and earning money from that.
- (ii) **Portfolio investment:** a domestic investor buying shares in a business that is already established. Such investors have no control over these companies.
- (iii) **Financial derivatives:** financial instruments where the underlying value is based on another asset.
- (iv) **Reserve assets:** a Central Bank will use foreign financial assets to cover deficits and imbalances.
 - If there is a deficit, it is balanced by:
 - Selling gold, or other financial reserves
 - Borrowing from other Central Banks
 - If there is a surplus, it is balanced by:
 - Buying gold, or other financial reserves
 - Paying off debts

Net errors and omissions

In theory, the two accounts should balance completely; however in practice, this doesn't always happen. Therefore the net errors and omissions compensate for the discrepancy between the two accounts.

a) Explanation of functions of central bank: 4x2=8 Marks

b) Balance of Payments; definition: 2 Marks, Current account; explanation: 4 Marks, Capital and official financing account; explanation: 4 Marks

Total Marks 18

Cost Accounting

(Level-2)



Summer Exam-2018 Solutions – Cost Accounting

Q.1.		(Rs.)	(Rs.)	05
(a)	Cost of Goods Sold	483,233		
	Inventory		483,233	
	To record the cost of 190 computers sold			
	Cost determined by the average-cost method:			
	190 @ Rs. 2,543.33 (Rs. 763,000 / 300 units)			
(b)		(Rs.)	(Rs.)	05
	Cost of Goods Sold			
	Inventory			
	To record the cost of 190 computers sold			
		477,000		
	Cost determined by the FIFO flow assumption:			
	170 @ Rs. 2,500 =	425,000		
	20 @ Rs. 2,600 =	52,000	477,000	
	Cost of goods sold	477,000		
(c)	Under FIFO, the cost of goods sold is based the oldest costs. Thus, relative to suing Average, the FIFO method will result in lower net income during periods of rising prices, which will increase a company's income tax liability. In the balance sheet, the FIFO method reports inventory at the most current costs. The Average method, on the other hand, reports the same inventory at Average rates, a bit conservative, and perhaps very secured..			05

Total Marks 15

Q.2. Fixed production overhead expenditure variance 05

(a)		(Rs.)	
	Budgeted fixed overhead expenditure	4,500,000	
	Actual fixed overhead expenditure	4,890,350	
	Fixed overhead expenditure variance	<u>390,350</u> Adverse	

(b) Fixed production overhead volume variance 05

$$\text{Fixed overhead absorption rate/direct labour hour} = \frac{\text{Rs. } 4,500,000}{1,000,000 \text{ hours}} = \text{Rs. } 4.5$$

$$\text{Budgeted hours/unit} = 1,000,000/62,500 = 16 \text{ hours/unit.}$$

$$\text{Fixed overhead absorption rate/unit} = 16 \text{ hours} \times \text{Rs. } 4.5/\text{hour} = \text{Rs. } 72 \text{ per unit.}$$

Note: An assumption in this question may be that fixed overheads are absorbed into product costs at a standard amount per unit – Rs. 72 – rather than at a standard amount for each hour worked.

	Units		05
Budgeted volume of production	62,500		
Actual volume of production	<u>70,000</u>		
Fixed overhead volume variance (units)	<u>7,500</u> Favourable		
Fixed overhead rate/unit	Rs. 72		
Fixed overhead volume variance (Rs.)	Rs. 540,000 Favourable		

(c) This Expenditure variance indicates that the company has spent more than originally budgeted. Volume variance indicates that the company has produced more output volume than originally budgeted.

Total Marks 15

Summer Exam-2018
Solutions – Cost Accounting

Q.3. AL-FATEH COMPANY 05
Weighted Average

	Direct Material (Rs.)	Conversion (Rs.)	Total (Rs.)
Work in process, March 1	11,000	34,000	45,000
Costs incurred during March	<u>220,000</u>	<u>342,000</u>	<u>562,000</u>
Total costs to account for	<u>231,000</u>	<u>376,000</u>	<u>607,000</u>
Equivalent unit	220,000	184,000	
Costs per equivalent unit	1.05	2.04	3.09

Cost of goods completed and Transferred out during March: 05

$$\left[\begin{array}{c} \text{Number of units} \\ \text{Transferred out} \end{array} \right] \times \left[\begin{array}{c} \text{total cost per} \\ \text{equivalent unit} \end{array} \right] = 180,000 \times \text{Rs. } 3.09 = 556,826$$

Cost remaining in March 31 Work in process: 05

Direct material (40,000* x Rs. 1.05)	42,000	
Conversion (4,000* x Rs. 2.04)	<u>8,174</u>	
Total		<u>50,174</u>
Total costs accounted for		<u>607,000</u>

*Equivalent units in March 31st work in process:

	Direct Material (Rs.)	Conversion (Rs.)
Total equivalent units (weighted average)	220,000	184,000
Units completed and transferred out	<u>(180,000)</u>	<u>(180,000)</u>
Equivalent units in ending work in process	<u>40,000</u>	<u>4,000</u>

Total Marks 20

Q.4. (a) Variable overhead spending variance = actual variable overhead – (AH x SVR) 05
= Rs. 4,510,000 – (375,000 x Rs. 10.00)
= Rs. 760,000 U

Q.4. (b) Variable overhead efficiency variance = SVR (AH – SH) 05
= Rs. 10.00 (375,000 – 650,000*)
= Rs. 2,750,000 F

*SH = 65,000 units x 10 hours per unit

Q.4. (c) Fixed overhead budget variance = actual fixed overhead – budgeted fixed overhead 05
= Rs. 10,250,000 – Rs. 9,600,000*
= Rs. 650,000 U

*Budgeted fixed overhead = 600,000 hours x Rs. 16 per hour

Q.4. (d) Fixed overhead volume variance = budgeted fixed overhead – applied fixed Overhead 05
= Rs. 9,600,000 – Rs. 10,400,000*
= Rs. 800,000 (positive)**

*Applied fixed overhead = Rs. 16 per hour x 10 hours per unit x 65,000 units

Total Marks 20

Summer Exam-2018
Solutions – Cost Accounting

- Q.5.** Average cost Rs. 310.40 (40 units @ Rs. 7.76) (Average cost = Rs. 2262/289 units = Rs. 7.83) 05
- (a)
- (b) FIFO, Rs. 374.00 (27 units @ Rs. 10.00 + 13 unit @ Rs. 8.00) 05
- (c) FIFO method results in the same ending inventory valuation in both periodic and perpetual costing environments. Under the average cost method, periodic and perpetual systems usually result in different valuations due to the timing of inventory purchases and sales. Under FIFO, the value assigned to ending inventory is the same using periodic or perpetual procedures, regardless of when purchases or sales occur during the period. 05

Total Marks 15

Q.6. **CALCULATION OF EQUIVALENT UNITS: SSS (PVT) COMPANY**
Weighted-Average Method

	Physical Units	Percentage of Completion with Respect to Conversion	Equivalent Units Direct Material	Conversion	
Work in process, November 1	4,000,000	25%			
Units started during November	<u>1,900,000</u>				
Total units to account for	<u>5,900,000</u>				05
Units completed and transferred out during July	5,420,000	100%	5,420,000	5,420,000	
	<u>480,000</u>	80%	480,000	384,000	05
Work in process, November 30					
Total units accounted for	<u>5,900,000</u>				
Total equivalent units			<u>5,900,000</u>	<u>5,804,000</u>	05

Total Marks 15

FIFO

	Units	Rs. / Unit	Rs. (m)	
	4,000	3,500	14.00	
	1,000	3,400	3.40	
	5,000		17.40	(02)

LIFO

	Units	Rs. / Unit	Rs. (m)	
	2,000	3,000	6.00	
	2,000	3,200	6.40	
	1,000	3,400	3.40	
	5,000		15.80	(02)

Cash position at end of the June

	FIFO	LIFO	
Sales (receipts)	<u>112.00</u>	<u>112.00</u>	(01)
Purchases	62.90	62.90	
Marketing and administrative expenses	21.00	21.00	
Income tax (35%)	<u>13.83</u>	<u>13.27</u>	
Total disbursements	<u>97.73</u>	<u>97.17</u>	(02)
Cash balance	14.27	14.83	(01)

Total Marks 20

Financial Accounting

(Level-3)



Summer Exam-2018 Solutions – Financial Accounting

Q.1.
(a)

Partners' Capital Accounts							
	Hussain	Basharat	Rida		Hussain	Basharat	Rida
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
				Balance b/d	45,000	20,000	
				Cash (1)			10,000
Goodwill (2)	9,000	6,000	3,000	Goodwill (2)	10,800	7,200	
Balance c/d (1)	<u>46,800</u>	<u>21,200</u>	<u>7,000</u>				
	<u>55,800</u>	<u>27,200</u>	<u>10,000</u>		<u>55,800</u>	<u>27,200</u>	<u>10,000</u>
				Balance b/d	46,800	21,200	7,000

08

Q.1.
(b)

Income Statement and appropriation account for the year ending 30 June 2012				
	9 months to 31 March 2012		3 months to 30 June 2012	
	Rs.	Rs.	Rs.	Rs.
Gross profit (1)		58,605		19,535
Less:				
General Expenses (1)	36,000		12,000	
Depreciation (1)	1,920		640	
Bad debt (1)	<u>1 350</u>		-	
		<u>(39,270)</u>		<u>(12,640)</u>
Net profit		19,335		6,895
Interest. on Capital:				
Hussain (1)	2,700		1,170	
Basharat (1)	1,200		530	
Rida (1)	-		<u>175</u>	
		<u>(3,900)</u>		<u>(1,875)</u>
		15,435		5,020
Salary:				
Hussain (1)	-		2,000	
Basharat (1)	-		1,500	
Rida (1)	-		<u>1,000</u>	
		-		<u>(4,500)</u>
				520
Profit: (2)				
Hussain	9,261		260	
Basharat	6,174		173	
Rida	-		<u>87</u>	
		<u>(15,435)</u>		<u>(520)</u>
		Nil		Nil

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- General expenses: Rs.47,590 + Rs.410 = Rs.48,000 (Split: 36,000:12,000)
- Depreciation: Rs.25,000 – Rs.12,200 = Rs.12,800 x 20% = 2,560 (Split: 1,920:640)

Total Marks 20

Q.2.

Profit on Disposal	Rs. 000	Rs. 000
Sales proceeds		900
Valuation at 31 December 2004	810	
Less: depreciation ([810 ÷ 9 years] × 2 years)	<u>(180)</u>	
Carrying Value at 31 Dec 2006		<u>(630)</u>
Profit on disposal		<u>270</u>



Summer Exam-2018 Solutions – Financial Accounting

Transfer remaining balance on revaluation reserve:		
Dr. Revaluation surplus	135	
Cr. Retained earnings		135

Total Marks 10

- Working:
[750,000-75,000]-810,000=135,000

**Q.3.
(a)**

Yaqoob Plc	
Income Statement for year ended 30 September 2013	
	Rs.
Revenue	936,011
Cost of sales (1)	<u>(484,263)</u>
Gross profit	451,748
Distribution costs	(112,967)
Administrative expenses	<u>(262,042)</u>
Profit from operations	76,739
Tax (1)	<u>(16,730)</u>
Profit for the year	<u>60,009</u>
Workings	
Cost of sales: 177,838 + 479,352 – 172,927	484,263
Distribution costs: (4)	
Trial balance	108,376
Prepayment	(2,760)
Loss	212
Depreciation	<u>7,139</u>
	<u>112,967</u>
Depreciation: (3)	
Buildings	11,200
Plant + Machinery	10,500
Motor Vehicles	<u>6,856</u>
	<u>28,556</u>
Administrative expenses: (5)	
Trial balance	236,758
Accrual	4,525
Provision	(1296)
Loss	638
Depreciation	<u>21,417</u>
	<u>262,042</u>
Provision: (2)	
Receivables = 138,450 × 4%	5,538
Adjustment = 5,538 – 6,834	(1,296)

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Summer Exam-2018 Solutions – Financial Accounting

Q.3.
(b)

14

Yaqoob Plc	
Statement of Financial Position as at 30 September 2013	
	Rs.
Assets	
Non-current assets	
Property, Plant and Equipment (3)	338,966
Current Assets (3)	
Inventories	172,927
Trade and other receivables	135,672
Cash and cash equivalents	-
	<u>308,599</u>
Total assets	<u>647,565</u>

Working: Property, Plant & Equipment

	Land of Building	Plant & Mach.	Motor Vehicles	
Cost	380,000	105,000	65,000	
Less Ac Dep.	89,600	77000	44,434	
	<u>290,400</u>	<u>28,000</u>	<u>20566</u>	<u>=338,966</u>

Equity and liabilities	
Equity (3)	
Share capital	400,000
Share premium	40,000
Retained earnings [57,386+60,009]	<u>117,395</u>
	<u>557,395</u>
Current liabilities (3)	
Trade and other payables [51,243+4,525]	55,768
Tax liability	16,730
Bank overdraft	<u>17,672</u>
	<u>90,170</u>
Total equity and liabilities	<u>647,565</u>
Workings	
Trade and other receivables: (1)	
Trade receivables from T/B	138,450
Provision	<u>(5,538)</u>
	132,912
Prepayment	<u>2,760</u>
	<u>135,672</u>
Trade and other payables: (1)	
Trade payables from T/B	51,243
Accrual	<u>4,525</u>
	<u>55,768</u>

Total Marks 30



Summer Exam-2018 Solutions – Financial Accounting

Q.4. Reconciliation of operating profit to net cash flow from operating activities:
(a)

05

	Rs. 000
Operating Profit (1)	227
Depreciation: plant and machinery (1)	110
Depreciation: motor vehicle (1)	95
Profit on disposal of plant and machinery (1)	(15)
Loss on disposal of motor vehicles (1)	<u>12</u>
	<u><u>429</u></u>

Q.4. Capital Expenditure
(b)

03

	Rs. 000	Rs. 000
Purchase of Fixed Assets (1)	(560)	
Proceeds of Disposal (1)	33	
		<u><u>(527)</u></u> (1)

Total Marks 08

Q.5.

Particulars	Rs.	Particulars	Rs.
Opening Stock (0.5)	37,500	Cash received from Branch (1)	675,000
Opening Debtors (0.5)	75,000	Goods returned from branch (1)	5,000
Opening Petty Cash (0.5)	750	Closing Stock (0.5)	62,500
Cash Sent to Branch (1) [22.5+3.75+2.75]	29,000	Closing Debtors (0.5)	120,000
Goods sent to Branch A/c (1)	630,000	Closing Petty Cash (0.5)	500
General Profit & Loss A/c:			
(Profit) (1)	<u>90,750</u>		-
	<u><u>863,000</u></u>		<u><u>863,000</u></u>

08

Total Marks 08

Q.6.

Item	Lower of cost or net realizable value	Statement of Financial Position value
A1	8,000 or (7,800 – 500)	7,300 (2)
A2	-	14,000 (0.5)
B1	-	16,000 (0.5)
C1	6,000 or (7,000 – 200)	<u>6,000 (2)</u>
Inventory valuation in the Statement of Financial Position		<u><u>43,300 (1)</u></u>

The reduction in the value of item A1 from Rs.8,000 cost to Rs.7,300 net realizable value results in a write-off of Rs.700 in the value of inventory. This is treated as an expense in the accounting period when the reduction in value occurs.

Total Marks 06

Q.7.

	Rs'000
Revenue per draft profit or loss	27,000 (1)
Servicing costs (800 x 2 x 130%)	<u>(2,080) (4)</u>
	<u><u>24,920 (1)</u></u>

Total Marks 06



Summer Exam-2018
Solutions – Financial Accounting

- Q.8.** Expected profit = (Rs.5m – ([Rs.2.4m + Rs.1.6m]) = Rs.1m (1)
Profit to date = (Rs.1m × ([1.8m/5]) = Rs.0.36m (1)

Contract Asset	Rs.000
Costs to date (1)	1,600
Profit to date (1)	360
Less amounts invoiced (1)	<u>(1,800)</u>
	<u>160</u>

Total Marks 05

Q.9.

	Rs.
Costs incurred to date (1)	740,000
Recognized profits (working) (1)	297,000
Amounts invoiced (1)	<u>(700,000)</u>
Contract Asset	<u>337,000</u>

Workings:

	Rs.
Total Contract Revenue (1)	2,800,000
Costs to date	(740,000)
Costs to complete (1)	<u>(1,400,000)</u>
Total expected profit (1)	<u>660,000</u>
Profit to date (660,000 × 45%)= 297,000 (1)	

Total Marks 07

Business Commn. & Report Writing

(Level-3)



Summer Exam-2018

Solutions – Bus. Commn. & Report Writing

Q.1. The examinee may write any 5 of the following steps:

1. Retain an open mind avoiding bias and judgment.
2. Try to avoid distractions and focus your attention particularly at the start and end of discussions.
3. Maintain interest and make an effort to listen.
4. Watch for non-verbal cues; listen to the tone of voice.
5. Pick up the main ideas by distinguishing between supporting evidences and the key issues.
6. Wait before interruption.
7. Assess what the other person is saying by identifying potential bias, omissions and assumptions.
8. Prepare to listen and focus on grasping the main concepts.
9. Take notes; however, this should not distract from listening.
10. Don't anticipate; show patience and don't jump to conclusion.

Total Marks 05

Q.2. Examinee may write any 3 of the following characteristics:

1. A Creative thinker is always curious and looks at problems as opportunities.
2. He enjoys taking challenges and is comfortable with imagination.
3. A creative thinker challenges assumption and does not give up that easily.
4. A creative thinker is self-governing and free in his judgments.
5. He is self-assertive, dominant, and impulsive.
6. He prefers complexity.
7. He develops the ability to deal with ambiguity and unstructured problems.

Total Marks 03

Q.3. The suggested answer is detailed. The examinee may give limited information to acquire 2 marks for each type.

- (i) **Follow-up letters:** Follow-up letters are sent to promote or monitor a previous communication, for example a meeting, interview or sales order. They can also be used to get feedback on a schedule, or effectiveness of some kind of activity or service.

A follow-up letter is similar to a letter of enquiry in that fundamentally it is still a request for further information. However, the difference is that despite the previous correspondence or activity we have still not received all the information we need.

- (ii) **Covering letters:** A covering letter is sent with another document or a consignment of goods. It is used for further explanation of that document or consignment. For example a cover letter may accompany a report describing why the report has been sent. Another example may be of a cover letter sent along with a consignment of damaged stock that is being returned to the supplier. The cover letter would explain which specific order number the goods relate to, the date they were originally



Summer Exam-2018

Solutions – Bus. Commn. & Report Writing

delivered and details of the damage identified. The cover letter would also describe the contents and specify the quantity of each type of good that is included in the consignment.

A cover letter accompanying curriculum vitae (CV)/ resume sent in response to a work opportunity. The letter would provide additional information on skills and experience and explain which job application the CV specifically relates to.

- (iii) **Acknowledgement Letters:** Letter of acknowledgement is sent on receiving a business document. The letter basically serves as receipt. Businesses send them to let others know that they have received a communication and either have dealt or will deal with the prior communication in due course. The tone of the letter should be polite and truthful.
- (iv) **Adjustment Letters:** Adjustment letter is a reply from the seller to the buyer's complaint or claim. Through this letter, the seller notifies the customer whether his (buyer's) claim is granted or rejected. Since this letter settles the claims of the customers, it is also termed as letter of claim settlement. This letter helps to build and maintain goodwill with the customers.
- (v) **Inquiry letters:** A letter of enquiry represents a request for further information. It encourages the recipient to reply with all the relevant information one needs. The letter should demonstrate the need of information and specify the areas to be explained by the recipient.

Total Marks **10**

Q.4. The examinee can write any 4 of the following advantages: 04

- (a)
1. Blogs let one interact with people and get their feedback at no or very little cost.
 2. Blogs are very easy to create and maintain. It takes as little as ten minutes to get registered and start blogging.
 3. One can provide as much contents as one wants on a regular basis.
 4. Blogs are commonly referred to as search engine friendly. The posts and pages are automatically linked by blogs which enables search engines to find, crawl and index the blogs. With relevant keywords in the blog, we can have pages ranking higher in search engines.
 5. Blogs are normally regularly updated and are great learning experience.
 6. It satisfies the need to express one's feelings; it is a fun for everyone.

Q.4. The expected answer, from the examinee, is simpler and shorter than the given suggested answer. 06

(b)

Standard Web hosting is a kind of shared hosting. It grants a specific amount of server space on the shared system. Dedicated Web hosting means the client company pays for its own dedicated server machine for its Web site's exclusive use. A client company should prefer Dedicated Web hosting over Standard Web hosting for the following reasons:

1. **When the web site needs more space:** When your website needs more web space which means storage space. It accommodates more text files, images, scripts, databases, emails and other files related to website.



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2. **When a business needs greater control over its Website:** The site owner will normally be granted something called root access which allows them access to the server to make changes and control the site.
3. **When you need increased security:** Dedicated webhosting offers security. There is a risk with shared servers (as is the norm with free and standard services) that if one website is attacked or hacked then other websites on the same shared server are typically vulnerable too.
4. **When you need to ensure greater performance:** Because of having full control, dedicated webhosting ensures great performance and faster loading times.

Q.4. (c) The expected answer, from the examinee, is shorter than the suggested answer.

05

Limitations of video conferencing can include:

1. **Eye contact:** Video conferencing can often give the incorrect impression that the remote participants are avoiding eye contact when in fact they are not.
2. **Appearance consciousness:** This describes the psychological problem where delegates change their behavior or feel uncomfortable because they are on camera. The problem may well be worsened if the session is recorded. There has been some research performed that suggests that communication is in fact impaired by the addition of camera.
3. The video conference experience is entirely reliant on stable technology and communications links with large bandwidth. Unexpected variations in signal quality or technology issues can destroy the video conference unexpectedly.
4. Mass adoption and use of video conferencing in non-commercial environments remains relatively low due to the perceived complexity of systems, lack of common technology standards, highly variable bandwidth and quality of service in different countries and relative expense of commercial systems.
5. The stress and anxiety present in some participants due to appearing on camera can have a negative impact on their health and social wellbeing.

Total Marks

15

Q.5. The circular may follow the format as given below:

Letterhead
Circular letter

Reference: 8357240/DL

All employees

5 May 20XX

ABC Division
Salutation,

Subject line

Body (The body may consist of the following points:



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- The employer's expectations for coming in to work on time. For example, employees are expected to report to work as scheduled, be on time and prepared to start work. Non-approved late arrivals are disruptive and should be avoided.
- The consequences for arriving late to work.
- How time will be tracked (e.g., swipe cards or signing an attendance sheet).
- A procedure for reporting lateness, including who the employee should notify if he is going to be late, and by when
- How employees will be required to make up missed time (if applicable).
- An outline of the disciplinary actions that will be taken for employees who do not follow the policy.

Additionally, the policy should be flexible enough to allow for special situations that might arise.

Late-to-Work Penalty

Complimentary close

Signature

Name

Designation

Total Marks **12**

Q.6. The examinee may write any 5 of the given guiding principles

- Visual Aids should be used sparingly to highlight and give greater credibility to key points. Excessive use of Visual Aids would lose their efficacy.
- Visual Aids must be clearly visible to the entire audience. It is irritating for the audience when the visual aids can be seen only by a portion of the audience in the room.
- Visual Aids should be displayed only at the relevant points in the presentation and should be removed/switched off before moving on to the new information.(An irrelevant Visual Aid creates distractions among the audience.)
- A Visual Aid should contain only such information which can be easily comprehended by the audience.
- A Visual Aid showing Clip Arts from well-known sources should be avoided as it shows lack of original professional knowledge of the subject.
- After offering the explanation of the contents of the Visual Aid, the speaker should immediately turn face towards the audience and continue to speak.

Total Marks **05**

Q.7. Mediation is a deliberate and confidential process in which an impartial third-party, mediator, helps people discuss difficult issues and settle an agreement. The mediator does not have any decision-making power over the outcome.

Arbitration is a process in which a neutral, third-party, after reviewing evidence and listening to arguments from both sides, issues a decision to resolve the case. Arbitrators have decision-making power.

Total Marks **04**



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Q.8. The examinee may give any 2 examples

Cliché: A clichés is an overused phrase or opinion that betrays a lack of original thought. It is often tempting to emphasize or demonstrate a point by using a cliché; however, they can make the writing sound routine and even reflect lack of professionalism. One should avoid the use of clichés, when he aims to make his writing personal to the reader. Moreover, some people just tune out when they hear a cliché, so they may miss the point that the sender is trying to make.

Examples of clichés (often found in business communication) : *Methodology; Mandates; In respect of; In accordance with your request; Thanking you in anticipation; The aforementioned; Herewith please find; Hereby, etc.*

Negative words and phrases: In business messages, use of negative words and phrases should be avoided. It is a fact that a positive statement will encourage a positive response whereas a negative tone will get a negative response. Positive statements also require less effort to read and are less likely to be misunderstood than negative ones. For example:

Negative	Positive
It was not unreasonable to assume the reconciliation would not work.	It was reasonable to assume the reconciliation would work.
If you let me know...	When you let me know...
I cannot let you have the report today.	I will send you the file on Thursday

Total Marks

06

Q.9. The answer may vary; can be written in paragraph form; however, the given points may be included.

Mr. Abdullah Khaqani should have an oral discussion (face-to-face) due to the following reasons:

- Oral communication can be best used to transfer private and confidential information/matter.
- Oral communication is less formal which facilitates the expression of thoughts and ideas. This may help clear misunderstandings, if any.
- It produces a prompt response of some kind. The feedback is spontaneous. Thus, decisions can be made quickly without any delay.
- Here the speaker can get the audience engaged psychologically.
- It is spontaneous and chances of betrayal or deception is minimum. There is high level of understanding and transparency in oral communication as it is interpersonal.
- Oral communication is time saving. Direct discussion and quick feedback may help come to conclusion without further delay.
- Oral communication is best in case of problem resolution. The conflicts, disputes and many issues/ differences can be put to an end by talking them over.
- Oral communication promotes a receptive and encouraging morale among organizational employees.
- Oral communication is highly flexible. It allows changes in decisions or attitudes.
- It is an active transfer of information.

Total Marks

08



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Solutions – Bus. Commn. & Report Writing

Q.10. **Agenda** is a list of items to be discussed at a formal meeting. The items included in an agenda of a formal meeting are: 06

- (a)
- Title, date, time and place of the meeting;
 - Purpose of the meeting;
 - Minutes of the previous meeting;
 - Apologies for absence;
 - Any other business;
 - Date of next meeting;

Q.10. The responsibilities of the minute taker include: 05

- (b)
- Recording attendance
 - Writing notes during the meeting
 - Writing minutes as soon as possible after the meeting
 - Getting the minutes approved (for a formal meeting)
 - Circulating the minutes

Total Marks 11

Q.11. **Video conferencing** is a system used by people in different physical locations to hold a meeting (called a virtual meeting). 07

OR

Videoconferencing (or video conference) means to conduct a conference between two or more participants at different sites by using computer networks to transmit audio and video data.

Growing popularity of Video conferencing in commercial organizations:

A number of factors have contributed to the rapid increase in demand for video conferencing in businesses over recent years including:

The examinee may write 5 points for 5 marks.

- Improved lower-cost technology with greater bandwidth.
- Wider variety of video conferencing tools available associated with increasingly more powerful PCs.
- Environmental friendly IT initiatives such as reduced air travel.
- High travel costs combined with austerity related cost saving initiatives.
- For effective sharing of expertise and knowledge, some companies even use video conferencing for intra-business as well as inter-business communications.
- Increased attendance from dispersed internal teams and clients is possible for participants who otherwise would have been debilitated by location.
- Structured Meetings with Improved Communications.
- Increased Productivity.
- Employee Retention.
- Sustained Competitive Advantage.
- Humanize Your Conversation.

Total Marks 07



Summer Exam-2018
Solutions – Bus. Commn. & Report Writing

Q.12. The answers may vary. The report can be written with memo format or letter. The format of a memo report should be:

To:

From:

Date:

Subject:

It should contain the following sections:

1. **Introduction or Term of reference:** The introduction answers the following:
 - Who ordered the report?
 - What is the purpose of the report?
 - Where does the information come from?
 - Are recommendations given?
2. **Methodology:** The methodology is the description of the procedure adopted for the survey or investigation of the matter.
3. **Findings:** The findings section should simply present information without drawing conclusions.
4. **Conclusion:** Conclusion is basically a summary of a problem written about in the Findings section.

Recommendations: The last section of a report is the recommendations section. For each concluding point, a recommendation is given. The recommendations are given in the same order as the conclusions and are numbered here for easy reference.

Total Marks 14

Taxation

(Level-3)

Summer Exam-2018
Solution - Taxation

Q.1.

Mr. Akhtar
Taxable Income & Tax Payable
Tax Year 2018

	Rs.	Rs.
Basic salary (25,000 x 12)	-	300,000
Utility allowance (5% x (25,000 x 12))	-	15,000
Commission earnings	-	375,000
Training allowance (10,000 x 12)	-	120,000
Value of salesman of the year award	-	450,000
Perquisite of car (working 1)	-	57,500
Medical allowance ((25,000 x 12) x 9%)	-	27,000
Perquisite on account of concessional rate of mark up (Working 3)	-	80,000
Dangerous working condition supplement	-	450,000
Labour court award	-	900,000
Taxable income under the head 'Salary'	-	<u>2,820,500</u>
Tax on Taxable Income		
(259,500 + (2,820,500 – 2,500,000) x 20%)	-	323,600
Tax already paid		
Tax deducted by FPPL	190,000	-
Tax deducted by former employer	90,000	-
Tax on telephone bills	3,000	-
Tax collected at the time of function	8,000	-
Total tax paid	-	(291,000)
Tax payable with return		<u>32,600</u>

Explanation of items not included in the computation of taxable income

(i) Reimbursement of medical expenses

The reimbursement of medical expenses of Rs.430,000 is not taxable when received in accordance with the terms of Akhtar's employment contract. [However, in the presence of this facility, the medical allowance which otherwise is exempt up to 10% of the basic salary becomes taxable.]

(ii) Contribution to the recognised provident fund

The contribution of Rs.2,500 per month by Akhtar is already taxed and need not be taxed again. As regards the contribution of FPPL, this is exempt because the provident fund is a recognised provident fund. Employee's contribution is exempt upto $\frac{1}{10}$ (Basic Salary+ Dearness Allowance i.e. 30,000) = 150,000
Fee paid to lawyer.

The amount received from a former employer is treated as salary. No deduction from earned income under the head 'Salary' is admissible. The fee of Rs. 80,000 paid to the lawyer cannot, therefore, be deducted.

Summer Exam-2018
Solution - Taxation

Total contribution by the Employee (2,500 * 12)	30,000
Exemption	30,000
Taxable	-

Workings:

Working 1

Where a car is provided partly for personal and partly for business use, 5% of the cost of the car incurred by the employer is treated as salary income on account of this perquisite:

Purchase cost	1,150,000
5% to be treated as the value of the perquisite (1,150,000 x 5%)	57,500

Working 2

Total running expenses of the car	230,000
Prorated expenses relating to personal use of the car estimated to be 20% (230,000 x 20%)	46,000

Working 3

Loan amount	2,000,000
Bench mark rate	10%
Mark up rate charged by FPPL	2%
Perquisite on account of beneficial rate of mark up ((10 - 2)% x 2,000,000x6/12)	80,000

Total Marks 14

Q.2. a) Cash-basis v/s accrual-basis of accounting

04

- (a) According to cash-basis accounting, for tax purposes, income is recognized when it is actually received and expenditure is recorded when it is actually paid. On the other hand according to accrual-basis accounting, income is accounted for when it becomes due to the person whether received or not and expenditure is recorded when it becomes payable by the person whether actually paid or not.

b) Procedure for changing the method of accounting

A person can apply to the Commissioner Inland Revenue (the 'Commissioner') for a change in the method of accounting for computing their income chargeable to tax under the head 'Income from business' through a written application.

The applicant has to satisfy the Commissioner that the requested change is necessary to clearly reflect the applicant's business income chargeable to tax. If the Commissioner is satisfied, the change will be allowed.

Where a person is allowed to change their method of accounting, the applicant taxpayer will have to make adjustments to the items of income, deductions, credits, or other similar items to ensure that:

- no item is omitted from the computation of taxable income; and
- no item is taken into account more than once.

Total Marks 08

Summer Exam-2018
Solution - Taxation

Q.3. Salary

04

(i) Salary means any amount received by an employee from any employment, whether capital or revenue nature including:

- a) Any pay, wages, bonus, leave pay, payment in lieu of leave, overtime payment, bonus, commission, fee, gratuity or work condition supplements;
- b) Any perquisites, whether convertible to money or not;
- c) Any allowance provided by employer including cost of living, subsistence, rent, utilities, education, entertainment or travel allowance;
- d) Any reimbursement of employee's personal expenditure;
- e) Any profit in lieu of salary such as:
 - i) for agreement to enter into employment
 - ii) for agreement to any conditions of employment
 - iii) on termination of employment as golden handshake payments
 - iv) provident fund
 - v) for agreement to a restrictive covenant in respect of any past, present or prospective employment
- f) Any pensions OR annuity;
- g) Employee share scheme.

(ii) Capital Assets

04

Capital Asset is defined as:

Property of any kind held by a person, whether or not connected with a business, but does not include: -

- a) Any stock-in-trade, consumable stores or raw materials held for the purpose of business;
- b) Any property for which a depreciation or amortization deduction is allowed under the head Income from Business; or
- c) Any movable property held for personal use by the person or his family dependent.

(iii) Intangible

03

"Intangible" means any patent, invention, design or model, secret formula or process, copyright, trademark scientific or technical knowledge, computer software, motion picture film, export quotas, franchise, license, intellectual property, contractual rights and any expenditure that provides an advantage or benefit for a period of more than one year (other than expenditure incurred to acquire a depreciable asset or unimproved land).

Total Marks 11

Summer Exam-2018
Solution - Taxation

Q.4. Tier-1 Retailer	04
(i) Tier-1 retailers means:	
➤ a retailer operating as a unit of a national or international chain of stores;	
➤ a retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks;	
➤ a retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rupees six hundred thousand; and	
➤ a wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers	
(ii) Trust	02
Trust means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and includes a unit trust	
(iii) Whistleblower	03
Whistleblower means a person who reports concealment or evasion of sales tax and tax fraud leading to detection or collection of taxes, fraud, corruption or misconduct, to the competent authority having power to take action against the person or a sales tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes.	
(iv) Open market price	02
Open market price means the consideration in money which that supply or a similar supply would generally fetch in an open market.	
Total Marks	11
Q.5. The taxation system may also be utilized to achieve the following non-revenue objectives as follows:	03
(a)	
- To strengthen anemic enterprises by granting them tax exemptions or other conditions or incentives for growth;	
- To protect local industries against foreign competition by increasing local import taxes;	
- As a bargaining tool in trade negotiations with other countries;	
- To counter the effects of inflation or depression;	
- To reduce inequalities in the distribution of wealth;	
- To promote science and invention, finance educational activities or maintain and improve the efficiency of local forces;	
- To implement laws which eliminate discrimination among various elements in the markets/businesses.	
- To discourage certain undesirable sectors and activities.	
- To promote documentation in the economy.	
- To promote export of the country.	
- To promote investment in listed companies.	
- To promote information technology specially software houses.	
- To promote culture of payment of donation to only organized and regulated institutions.	

Summer Exam-2018

Solution - Taxation

- (b) Following taxes can be imposed by the Federal Government 05
- (i) Taxes on income other than agricultural income.
 - (ii) Taxes on corporations.
 - (iii) Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed, except sales tax on services.
 - (iv) Taxes on the capital value of the assets, not including taxes on immovable property.
 - (v) Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy.
 - (vi) Taxes on the production capacity of any plant, machinery, undertaking, establishment or installation in lieu of any one or more of them.
 - (vii) Terminal taxes on goods or passengers carried by railway, sea or air; taxes on their fares and freights.

Total Marks 08

Q.6. Business Loss 05

- (i)
- (i) Where a person sustains a loss for a tax year under the head “income from business”, the said loss can be fully offset against the person’s income, if any, chargeable to tax under any other head of income except income from salary and income from property.
 - (ii) Where such loss cannot be fully offset against the income of any other head for that year, so much of the loss that has not been offset fully, may be carried forward to the following tax year and set off against the person’s chargeable income under the head “income from business” for that year.
 - (iii) No loss can be carried forward for more than six tax years immediately succeeding the tax year for which the loss was first computed.
 - (iv) If a Person has business losses carried forward for more than 1 year the loss of the earliest tax year will be set off first.
 - (v) Where the business loss includes deductions allowed under depreciation and amortization that have not been set off against income, the amount not set off, may be added to the deductions allowed under these heads in the subsequent years and so on until completely set off.

(ii) Speculation Losses 04

- (i) If a person sustains a loss in a tax year from any speculation business, he can set off such loss only against profits of any other speculation business carried on by him during the same tax year.
- (ii) If any loss cannot be so set-off, either wholly or partly, such portion of loss can be carried forward up to six tax years immediately succeeding the tax year in which it was sustained.
- (iii) In the subsequent years too, the speculation loss can be set-off against income of any speculation business only. It means that loss from speculation business cannot be adjusted against income under any other head.
- (iv) If a person has a speculation loss carried forward for more than one tax years, the loss of earliest tax year shall be set-off first.

Total Marks 09

Summer Exam-2018
Solution - Taxation

Q.7.

Computation of Tax Depreciation for tax year 2018:

	Plant	Building	Furniture
Depreciation rate	15%	10%	15%
Initial allowance	25%	15%	-
	----- Rupees -----		
Cost of asset	8,200,000	5,000,000	1,200,000
Add: Installation charges	700,000	-	-
Transportation cost	200,000	-	-
Insurance premium	-	-	-
Repair cost	-	-	-
Less: Government grant	(1,000,000)	-	-
	8,100,000	5,000,000	1,200,000
Initial allowance (a)	(2,025,000)	(750,000)	-
	6,075,000	4,250,000	1,200,000
Normal Depreciation (b)	(911,250)	(425,000)	(180,000)
Total depreciation – tax year 2017 (a+b)	(2,936,250)	(1,175,000)	(180,000)
Tax WDV at 30/6/2017	5,163,750	3,825,000	1,020,000
Normal Tax Depreciation – tax year 2018	744,562.50	382,500	153,000
Depreciation charge for tax year 2018			1,280,062.50

Note: It is assumed that Provincial grant of Rs.1,000,000 is exempt from tax, so it will be deducted from cost of asset.

Total Marks 08

Q.8. Person who may be appointed by the Federal Government as a judicial and accountant member of the Appellate Tribunal.

04

(a)

Judicial member:

- (i) A person may be appointed as a judicial member of the Appellate Tribunal if the person
- has exercised the powers of a District Judge and is qualified to be a Judge of the High Court;
 - is or has been an advocate of a High Court and is qualified to be a Judge of the High Court

Accountant member:

- (i) he is an officer of Inland Revenue Service equivalent to the rank of Chief Commissioner;
- (ii) a Commissioner Inland Revenue or Commissioner Inland Revenue (Appeals) having at least three years experience as Commissioner or Collector
- (iii) a person who has, for a period of not less than ten years, practiced professionally as a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961); or i.e. 30-6-2019
- (iv) a person who has, for a period of not less than ten years, practiced professionally as a cost and management accountant within the meaning of Cost and Management Accountants Act, 1966 (XIV of 1966). i.e 30-6-2018

Summer Exam-2018
Solution - Taxation

- (b) (i) Under the Income Tax Ordinance, 2001 if in the opinion of the Commissioner, an asset is acquired from any income chargeable to tax but could not be charged to tax, it is considered to be a concealed asset. 05
- (ii) Where a concealed asset of any person is impounded by any department or agency of the Federal Government, the Commissioner may at any time, before making a best judgment or any amended assessment order, issue to the person a provisional assessment order or provisional amended assessment order, as the case may be, for the last completed tax year of the person after taking into account the concealed asset.
The Commissioner shall finalize a provisional assessment order or a provisional amended assessment order as soon as practicable.
- (c) (i) The Commissioner of income tax is empowered to amend the assessment of the taxpayer within five years from the end of the financial year in which the Commissioner has issued or treated to have issued the assessment order to the taxpayer. Accordingly, in this case amendment can be made by 30 June 2019. 04
- (ii) Where the Commissioner has issued the amended assessment order to the taxpayer, the limitation period should be later of:
- five years from the end of the financial year in which the original assessment order is issued or treated as issued by the Commissioner; or i.e. 30-06-2019
 - one year from the end of the financial year in which the amended assessment order is issued or is treated as issued to the tax payer. i.e. 30-06-2018

The time limitation for the next assessment will, therefore, be 30th June 2019

Total Marks 13

Q.9. Non-tariff area 02

- (a) “Non-tariff area” means Azad Jammu and Kashmir, Northern Areas and such other territories or areas to which this Act does not apply.
- (b) **Adjustment** 02
“Adjustment” means deduction of amount of duty paid on goods used in the manufacture or production of other goods from the amount of duty payable on such other goods in the prescribed manner.
- (c) **Dutiable goods** 02
“Dutiable goods” means all excisable goods specified in the First Schedule except those which are exempt under section 16 of the Act.

Total Marks 06

Summer Exam-2018
Solution - Taxation

Babar
Sales tax payable for February 2018
Output tax

		Rs.
On local supplies to un-registered persons (Rs. 4,000,000 x (17 + 2)%))	-	760,000
On local supplies to registered persons (Rs. 5,000,000 x 17%)	-	850,000
On local supplies to diplomats in Islamabad (Rs. 1,000,000 x 0%)	-	0
On exports to UAE with the intention of re-importing the same to Pakistan by a registered person (Rs. 3,000,000 x 17%)	-	510,000
Add back the input tax claimed earlier on purchases from Ilyas to whom payment has not been made for 181 days (1,053,000 x 17/117)	-	<u>153,000</u>
	-	2,273,000
Input Tax	-	-
Sales tax paid on purchase of raw materials:	-	-
On purchases from Masha (Rs. 46,800 x 17/117)	6,800	-
On purchases from Zahir (Rs. 3,510,000 x 17/117) = 510,000 but not admissible being payment from the personal bank account of Badar	0	-
On purchases from Nasir [online payment admissible mode because verified from bank statements] (Rs. 8,190,000 x 17/117)	1,190,000	-
Sales tax paid along with electricity bills in cash	<u>114,000</u>	-
	-	(1,310,800)
Sales tax payable	-	<u>962,200</u>

Total Marks 12

Financial Reporting

(Level-4)



Summer Exam-2018 Solutions – Financial Reporting

Q.1. Calculation of goodwill

08

(a)

	Rs. (000)	Rs. (000)
Cost of investment		
Cash	3,000	
Through own shares (500x30)	15,000	
Contingent consideration	2,000	20,000
Fair value of Non-controlling interest (250x27.5)		6,875
		26,875
Fair value of net assets		
Share capital	10,000	
Pre-acquisition reserves	2,200	
Fair value of plant	2,500	
Fair value of inventory	500	
Fair value of intangible asset	2,500	17,700
Goodwill		9,175

(b) Parent Company Limited

15

Consolidated statement of comprehensive income For the year ended December 31, 2017

	PCL Rs. (000)	SCL Rs. (000)	Adjustments Rs. (000)	Consolidated Rs. (000)
Profit or loss account				
Sales	54,500	32,600	(17,000)	70,100
Cost of sales	(30,300)	(18,360)	14,150	(34,510)
Gross profit	24,200	14,240	(2,850)	38,440
Administrative expenses	(4,569)	(3,256)	(200)	(8,025)
Selling expenses	(4,681)	(1,444)	--	(6,125)
Operating profit	14,950	9,540	(3,050)	24,290
Finance cost	(525)	(230)	--	(755)
Dividend income	1,750	--	(750)	1,000
Profit before tax	16,175	9,310	(3,800)	24,535
Tax expense	(4,650)	(2,320)	--	(6,970)
Profit after tax	11,525	6,990	(3,800)	17,565
Non-controlling interest (W-1)	--	(1,122.5)	--	(1,122.5)
Profit attributable to owner of parent	11,525	5,867.5	(3,800)	16,442.5
Other comprehensive income				
Revaluation surplus	4,000	--	--	4,000
Total other comprehensive income	4,000	--	--	4,000
Total comprehensive income	15,525	6,990	(3,800)	17,565
Attributable to:-				
Owners of parent				16,442.5
Non-controlling interest				1,122.5
				17,565



Summer Exam-2018 Solutions – Financial Reporting

(c)

	Debit Rs. (000)	Credit Rs. (000)	
Administrative expenses	200		
Contingent consideration payable		200	
Increase in contingent consideration payable			
Cost of sales	500		
Plant / accumulated depreciation		500	
Recognition of extra depreciation on fair value adjustment			
Cost of sales	500		
Pre-acquisition reserves		500	
Fair value adjustment on inventory			
Cost of sales	500		
Intangible asset		500	
Recognition of amortization of intangible asset			
Profit or loss account	750		
Non-controlling interest	250		
Dividend account		1,000	
Elimination of SCL dividend			
Sales	12,000		
Cost of sales		12,000	
Elimination of intra-group sales			
Cost of sales	600		
Inventory		600	
Elimination of un-realized profit on closing stock			
Sales	5,000		
Cost of sales		4,000	
Property, plant and equipment		1,000	
Elimination of un-realized profit on PPE			
Property, plant and equipment	250		
Cost of sales		250	
Elimination of extra depreciation			
W – 1 Share of profit of NCI	Rs. (000)	Rs. (000)	
Profit after tax		6,990	
Adjustment of:			
Extra depreciation	(500)		
Fair value adjustment of inventory	(500)		
Amortization of intangible asset	(500)		
Un-realized profit on intra group sales	(1,000)	(2,500)	
		4,490	
25% of profit		1,122.50	
IV of NCI at ACQ	6875	0.5	
share of profit	1122.5	0.5	

04

Total Marks 27

Q.2. Statement of Financial Position	Rs. (000)	Rs. (000)	
Assets – Current Assets			
Inventory		7,550	
Cash		7450	
Equity and Liabilities			
Retained Earnings		1875	
Current Liabilities			
Contract liability (15,000+1,875)		16,875	



Summer Exam-2018 Solutions – Financial Reporting

Statement of Comprehensive Income

Profit or Loss Account

Interest expense (15,000x12.5%) 1,875

As performance obligation will be satisfied [IFRS-15] after 1 ½ year, then revenue will be recorded.

Total Marks 12

- Q.3.** The opening retained earnings of the current year will be reduced by Rs. 4.5 million as well as the cash balance. There will be no effect on taxation as it is not an allowable expense. However, the previous year will not be restated and the disclosure regarding impracticable situation will be given under IAS – 8 Accounting policy, change and accounting estimates and errors.

Total Marks 04

Q.4.

XYZ Limited Statement of Comprehensive Income For the year ended December 31, 2017

	2017	2016
	Rs. (000)	Rs. (000)
Profit before tax	6,201.0	5,020.0
Tax expense	(832.5)	(686.0)
Profit after tax	5,368.5	4,334

Workings: -

	2017	2016
	Rs. (000)	Rs. (000)
W – 1 Profit before tax	6,275	3,900
Borrowing cost wrongly expensed out	--	120
Extra depreciation	(24)	--
Cost of intangible asset	--	1,000
Extra amortization	(50)	--
	6,201	5,020
W – 2 Tax expense for the year	825	350
Increase in deferred tax liability	--	36
Effect of extra depreciation (25x30%) – reversal	(7.2)	--
Increase in deferred tax liability	--	300
Effect of extra amortization (25x30%) – reversal	(15)	--
	832.5	686

Total Marks 15



Summer Exam-2018 Solutions – Financial Reporting

Q.5. The calculation and allocation of impairment loss will be as under: -

Particulars	Carrying value	Specific loss	Carrying value	Impairment loss allocation	New carrying value
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
License	5,225	(225)	5,000	-	5,000
Office equipment	4,500	--	4,500	(954+491)	3,055
Office furniture	3,600	--	3,600	(763+392)	2,445
Inventory	2,300	(300)	2,000		2,000
	15,625	525	15,100		12,500
Recoverable value			12,500		
Impairment loss			2,825		

Total Marks 15

Q.6. IFRS 15 provides a five step approach for revenue recognition as under: -

- i) Identification of contract with customer
- ii) Identification of performance obligations
- iii) Identification of transaction price
- iv) Allocation of transaction price
- v) Recognition of revenue

The detail of which is as under: -

- i) Identification of contract with customer

A contract with a customer will be within the scope of IFRS 15 if all the following conditions are met:

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

If a contract with a customer does not yet meet all of the above criteria, the entity will continue to re-assess the contract going forward to determine whether it subsequently meets the above criteria. From that point, the entity will apply IFRS 15 to the contract.

- ii) At the inception of the contract, the entity should assess the goods or services that have been promised to the customer, and identify as a performance obligation:
 - a good or service (or bundle of goods or services) that is distinct; or
 - a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- iii) The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. When making this determination, an entity will consider past customary business practices.

Where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract.

Variable consideration can arise, for example, as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. Variable consideration is also present if an entity's right to consideration is contingent on the occurrence of a future event.



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Solutions – Financial Reporting

The standard deals with the uncertainty relating to variable consideration by limiting the amount of variable consideration that can be recognized. Specifically, variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved.

However, a different, more restrictive approach is applied in respect of sales or usage-based royalty revenue arising from licenses of intellectual property. Such revenue is recognized only when the underlying sales or usage occur.

- iv) Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices.

If a standalone selling price is not directly observable, the entity will need to estimate it. IFRS 15 suggests various methods that might be used, including:

- a) Adjusted market assessment approach
- b) Expected cost plus a margin approach
- c) Residual approach (only permissible in limited circumstances).

Any overall discount compared to the aggregate of standalone selling prices is allocated between performance obligations on a relative standalone selling price basis. In certain circumstances, it may be appropriate to allocate such a discount to some but not all of the performance obligations.

Where consideration is paid in advance or in arrears, the entity will need to consider whether the contract includes a significant financing arrangement and, if so, adjust for the time value of money. A practical expedient is available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

- v) Revenue is recognized as control is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This includes the ability to prevent others from directing the use of and obtaining the benefits from the asset.

An entity recognizes revenue over time if one of the following criteria is met:

- the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as the asset is created; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
- If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time.

- a) The goods and maintenance services will be separate performance obligations. The revenue from sale of goods will be recognized at the point of time of delivery and from maintenance services will be recognized over the time either straight line or some other appropriate method. The transaction price will be divided into these two performance obligations according to their standalone selling prices at the time of the contract.

The maintenance service of this type are not more covered under IAS 37.

- b) As per above discussion there will be one distinct performance obligations license and customization services as the customer cannot get benefit from any of them individually. The revenue from license and customization will be recognized at point of time when control over software transferred to customer.



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- Q.7.**
- a) As the constructive obligation arises after the reporting date there will be no provision to be made for this. However, a disclosure should be made for the expected termination and amount of expense involved.
 - b) The deferred tax should be calculated at the rates of tax applicable to future years which have been enacted or substantially enacted by the reporting date.
 - c) IAS-16 Property, plant and equipment requires that the asset should be recognized when there are expected economic benefits from the asset and cost is reliably measurable. The expected economic benefits will be there if the entity has got control over the asset. If the control relates with the delivery, then the asset and related liability can only be recognized after the delivery.
 - d) The dividend declared before the yearend should have been recorded and the bonus declared after the yearend can only be disclosed in the financial statements.
 - e) As the net realizable value of finished goods still above their cost therefore the raw material inventory should have not been reduced to net realizable value which is in case of raw material is replacement cost.

Total Marks 15

Management Accounting

(Level-4)



Summer Exam-2018 Solutions – Management Accounting

Q.1. Following advantages from the management accounting system may be enjoyed by a business:

1. Management accounting analyze and interpret systematically the information collected from within and outside the business and communicate the result to the management. This will help in implementing managerial policy decision effectively.
2. Management accounting helps in comparing actual performance with the budgeted standard and reporting management by deviations of corrections.
3. All the business activities are planned well ahead base on the accounting information applying budgeting and forecasting techniques. As such, all the activities are expected to be interwoven and well integrated to achieve the set goal. The said budgeting and forecasting techniques are efficiently applied with the help of management accounting.
4. Management accounting techniques help the business control its activities efficiently. It helps in utilizing its capital in an optimal way.
5. The management accounting often takes cognizance of the changes in the economic environment caused by government policies and other economic forces. This helps the business combat and accommodate it to such changes. Even the management accounting helps the business to get rid of the seasonal and cyclical fluctuations.
6. Management accounting facilitates coordination between different departments and helps in attaining the objectives of the business as a whole.
7. Management accounting plays a significant role in organizing the business on a sound footing. It assist the management with the help of internal control and internal audit in fixing targets, responsibilities, appraisal of performance, problem and solutions of these cost and profit centers and executing overall control of business activities.
8. Management accounting often compares the actual performance with the standard and analyze the reasons for any deviation there have and offers suggestions to take corrective measures.

Total Marks 05

Q.2. Operating cost (Excluding Depreciation):

	Present machinery	138,600		
	New machinery	<u>91,800</u>		
	Cash savings	46,800	46,800	
	Depreciation	<u>20,000</u>		
	Taxable savings	26,800		
	Income tax (50%)	<u>13,400</u>	<u>13,400</u>	
	Savings, after income tax	<u>13,400</u>		
	Cash savings, after income tax		<u>33,400</u>	
Payback period	= $\frac{\text{Rs. } 160,000}{\text{Rs. } 33,400}$	= <u>4.790</u> years		05
Investment		(160,000)		05
Present value of cash savings after income tax (Rs. 33,400 x 5.747)		<u>191,950</u>		
Net present value		<u>31,950</u>		
Net present value index	= $\frac{\text{Rs. } 31,950}{\text{Rs. } 160,000}$	= 0.20		

Total Marks 10



Summer Exam-2018

Solutions – Management Accounting

Q.3. Flexible Budget: **05**

(a) A budget which, by recognizing the difference in behavior between fixed and variable costs in relation to fluctuation in output or turnover is designed to change appropriately with such fluctuations. In Flexible budget we made comparison with actual results are made with a fixed budget.

(b) Zero Base Budgeting **05**

There are various types of functional budget, each of which was constructed on the basis of the previous year's budget. Adjustments were often made to allow for inflation, planned increases in resources, or changes in the previous year's actual results. This of course is an easy way to prepare budgets or forecasts, and is still widely used in industry and in the public sector.

In recent year however, a new technique has been introduced which has changed the basic theory of budgetary control. Zero base budgeting provides a total approach to budgeting, by starting from the beginning to appraise each function or activity, then to examine and contrast any alternatives. In other words, every item of budgeted expenditure must be examined critically and justified before it is allowed to form part of the budget.

It is found generally that zero base budgeting is applicable to those functional budgets which do not involve direct costs. Where direct costs are involved, such as for example, direct materials and direct wages, these will be controlled by the normal production operation, because it would be expected that each item of direct cost had been monitored carefully and its relationship with production established. Zero base budgeting is more applicable to budgets which involve overhead expenditure, such as administration and selling and distribution overhead.

When managers are preparing their budgets they must examine critically each item of expenditure and should be encouraged to be actively involved in areas related to their own, so that they can have a coordinated picture of the whole operation. The functional budgets will be incorporated in the master budget and it will be presented to the board of directors for approval and implementation. Zero base budgeting should be a useful tool in budget preparation because it provides the total approach to the problem.

Total Marks 10

Q.4. Break-even point (in units) **04**

(a)
$$= \frac{\text{fixed costs}}{\text{Unit contribution margin}}$$

$$= \frac{\text{Rs. 4,000,000}}{\text{Rs. 3,000} - \text{Rs. 2,000}} = 4,000 \text{ components}$$

(b) New break-even point (in units) **04**

$$= \frac{(\text{Rs. 4,000,000}) (1.10)}{\text{Rs. 3,000} - \text{Rs. 2,000}}$$

$$= \frac{\text{Rs. 4,400,000}}{\text{Rs. 1,000}} = 4,400 \text{ components}$$

(c)

Sales revenue (5,000 x Rs. 3,000)	Rs. 15,000,000	
Variable costs (5,000 x Rs. 2,000)	<u>Rs. 10,000,000</u>	
Contribution margin	Rs. 5,000,000	
Fixed costs	<u>Rs. 4,000,000</u>	
Net Income	<u>Rs. 1,000,000</u>	04

(d) New break-even point (in units) **04**

$$= \frac{\text{Rs. 4,000,000}}{\text{Rs. 2,500} - \text{Rs. 2,000}}$$

$$= 8,000 \text{ components}$$



Summer Exam-2018 Solutions – Management Accounting

(e) Analysis of price change decision:

04

	Price	
	Rs. 3,000	Rs. 2,500
Sales revenue: (5,000 x Rs. 3,000)	Rs. 15,000,000	
(6,200 x Rs. 2,500)		Rs. 15,500,000
Variable costs: (5,000 x Rs. 2,000)	Rs. 10,000,000	
(6,200 x Rs. 2,000)		Rs. 12,400,000
Contribution margin	Rs. 5,000,000	Rs. 3,100,000
Fixed expenses	Rs. 4,000,000	Rs. 4,000,000
Net income (loss)	Rs. 1,000,000	(Rs. 900,000)

The price cut should not be made, since projected net income will decline.

Total Marks 20

**Q.5.
(a)**

	2017 (Rs.)	2018 (Rs.)
Cash	1,200	500
Accounts Receivable	1,000	1000
Inventories	1,750	2300
Noncurrent Assets	6,650	7400
Capital employed	10,600	11,200

Rate of return on Capital Employed for 2017 = $\frac{\text{Net Income}}{\text{Capital employed}} = \frac{\text{Rs. 901}}{\text{Rs. 10,600}} = 8.5\%$

Rate of return on Capital Employed for 2018 = $\frac{\text{Net Income}}{\text{Capital employed}} = \frac{\text{Rs. 896}}{\text{Rs. 11,200}} = 8.0\%$

05

(b) $\frac{2018 \text{ Sales}}{2018 \text{ unit sales price}} = \frac{\text{Rs. 8,550}}{\text{Rs. 11.40}} = 750 \text{ Kgs (in 000s)}$

Price = $\frac{\text{Total cost} + (\% \text{ Desired return} \times \text{Total capital employed})}{\text{Sales volume in units}}$

= $\frac{\text{Rs. 7,931} + (8.5\% \times \text{Rs. 11,200})}{750 \text{ Kg (in 000s)}}$

05

= 11.844 per kg - minimum price to be charged to realize 8.5% rate of return on capital employed for 2017

05

Total Marks 15



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Solutions – Management Accounting

Q.6.

	Sell to Kaka Bawa as Special Order (Rs.)	Convert to Standard Model (Rs.)	Sell as Special Order as is (Rs.)	
Sales price	68,400	62,500	52,000	
Less cash discount	<u>-</u>	<u>1,250</u>	<u>-</u>	
Net price	<u>68,400</u>	<u>61,250</u>	<u>52,000</u>	05
Additional manufacturing costs				
Direct material	6,200	2,850	-	
Direct labor	4,200	3,300	-	
Variable manufacturing overhead	<u>2,100</u>	<u>1,650</u>	<u>-</u>	
Total additional manufacturing costs	12,500	7,800	-	
Commissions	<u>2,052</u>	<u>1,250</u>	<u>1,560</u>	
Total costs and expenses	<u>14,552</u>	<u>9,050</u>	<u>1,560</u>	
Net contribution	<u>53,848</u>	<u>52,200</u>	<u>50,440</u>	05

	(Rs.)
Contribution from sale to Kaka Bawa	53,848
Contribution from next best alternative: sell as standard model	<u>52,200</u>
Difference in contribution	1,648
Percentage of sales price received net of commission on special order: 100% - 3%	97%

Rs. 1 648

Acceptable reduction in sales price from Kaka Bawa = $\frac{0.97}{1} = 1,699$ (rounded) **05**

Original price quote to Kaka Bawa	68,400
Acceptable reduction	<u>1,699</u>
Minimum acceptable price from Kaka Bawa	66,701
Proof: Suppose Kaka Bawa pays a price of Rs. 66,701,	
Sales price	66,701
Less: Sales commission (3%)	<u>2,001</u> (rounded)
	64,700
Less: Additional manufacturing costs	<u>12,500</u>
Contribution with reduced price to Kaka Bawa	<u>52,200</u>

05

Therefore, at a price of Rs. 66,701 to Kaka Bawa, Cadex Industries' management would be indifferent between selling the machine to Kaka Bawa and converting it to a standard model. At any price quote from Kaka Bawa below Rs. 66,701, Cadex Industries' management would prefer to convert the machine to a standard model.

Fixed manufacturing overhead should have no influence on the sales price quoted by Cadex Industries for special orders. Management should accept special orders whenever the firm is operating substantially below capacity, including below the breakeven point, whenever the marginal revenue from the order exceeds the marginal cost. Normally, this would mean that the order should be accepted as long as the sales price of the order exceeds the variable production costs. The special order will result in a positive contribution toward fixed costs. The fixed manufacturing overhead is not considered in pricing because it will be incurred whether the order is accepted or not. **05**

Total Marks 25



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Solutions – Management Accounting

Q.7.		(Rs.)	05
	Incremental Revenue	100,000	
	Incremental Costs	40,000	
	Increase in Profits Due to Further Processing	60,000	

Opportunity Cost Approach:

		(Rs.)	05
	Sales in Case of Further Processing	200,000	
	Costs:		
	Additional Costs	40,000	
	Opportunity Cost of Not Selling at Split-Off	100,000	
	Gain on Further Processing	60,000	

Total Project Approach:

		Split-Off Point (Rs.)	Further Processed (Rs.)	
	Revenue	100,000	200,000	
	Costs	0	40,000	
	Net Revenue	100,000	160,000	
	Gain from Further Processing		60,000	

Total Marks 15

Audit, Assurance & Ethics

(Level-4)



Summer Exam-2018
Solutions – Audit, Assurance & Ethics

- Q.1** a) The quantity of material scrapped is materially different from the quantity may indicate sold, and no explanation for the difference is available. The shortage of sale proceeds represents theft of entity's assets and represents a fraud. 06
- (a) b) Abnormally high sales near the year end and sales return immediately after year end indicates that dummy sales invoices may have been raised to inflate profits. Since the management bonuses are linked to performance of the company, dummy sales invoices may have been recorded to show better profits in order to earn bonus. The fraud may have taken place by manipulating the accounts.
- c) An apparent error is indicated as payment voucher is supported by the supplier's invoice. Generally, the client will not deliberately understate the assets.

(b) Action to deal with above matters: 06

In case of fraud (a & b)

- (i) When the auditor has obtained evidence that fraud exists or may exist, the matter should be brought to the attention of appropriate level of management, even if the matter might be considered inconsequential.
- (ii) Ordinarily the appropriate level is at least one level above the persons who appear to be involved with suspected fraud.
- (iii) The auditor should discuss following matters related to fraud with those charged with governance:
- Concerns about the nature, extent and frequency of management's assessment of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
 - Failure by management to appropriately address identified significant deficiencies in the internal control.
 - Entity's controls environment including competence and integrity of management.
 - Actions by management that may be indicative of fraudulent financial reporting, such as management's efforts to inflate profits.
 - Concerns about the adequacy and completeness of the authorization of transactions outside the normal course of entity's business.
- (iv) When the auditor has doubts about the integrity of those charged with governance, the auditor may consider obtaining legal advice in determining appropriate course of action.
- (v) Ensuring that the fraud has been rectified and the errors are corrected.
- (vi) Revise initial assessment of controls risk and modify or extend further audit procedures.
- (vii) If the management refuses to rectify the fraud or correct errors, the auditor should consider the impact on audit report.
- (viii) The auditor may consider reporting the fraud to regulatory authorities. However before communicating the fraud to regulatory authorities the auditor should consider confidentiality of information and seek a legal advice.

In case of Error (c)

In case the Auditor has identified an error, Auditor will require the management to adjust the Financial Statements and ensure whether correct adjustment have been made by the management.



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Solutions – Audit, Assurance & Ethics

Q.2 Sampling Risk:

06

(a) **Definition:**

“Sampling risk is the risk that auditor’s conclusion based on sampling might be different from the conclusion if entire population would have been tested.”

How to reduce Sampling Risks:

Sampling risk cannot be eliminated entirely because no sample is perfect representative of population. However, sampling risk can be reduced through:

- Increase in Sample Size.
- Stratified Sampling.

In stratified sampling, population is sub-divided into different segments (which have similar characteristics e.g. monetary values) and then sample is selected from each segment.

Non-Sampling Risk:

Definition:

“Non-sampling risk is the risk that auditor’s conclusion may be wrong for any reasons other than sampling risk e.g. due to errors by auditors or incompetence of audit team or need to work on very tight deadline. “

How to reduce Non-Sampling Risk:

In practice, non-sampling risk is usually set at zero. Non-sampling risk can be reduced through:

- Adequate planning
- Adequate performance e.g. application of professional skepticism, assigning more experienced and specialized staff.
- Adequate supervision and review of the audit work performed

(b) Sufficiency is the measure of the quantity of audit evidence. Sufficiency of the audit evidence is affected by: 04

- Assessed risk at financial statement level and assertion level (if risk is high, more evidence is required)
 - Materiality and complexity of item (if item is highly material or complex, more evidence is required)
 - Auditor’s knowledge and experience of business (the more knowledge and experience, the less evidence will be required)
 - Quality of audit evidence (if quality is high, less evidence is required).
- Nature of internal control (if internal control is strong, auditor may place reliance on it and less evidence is required)

(c) Negative confirmation is less reliable because there is no explicit evidence that confirming party received and verified confirmation. Confirmation may be lost or disregarded by party. Therefore, negative confirmation is used in combination with positive confirmation. However, it can be used as sole substantive procedure only when all of following conditions are met: 04

1. Relevant population consists of large number of small account balances.
2. Inherent risk and control risk are low, and auditor has obtained evidence about operating effectiveness of controls.
3. A very low exception rate is expected, and
4. Auditor is not aware of any circumstances that confirming party will disregard such requests.

Total Marks 14



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Solutions – Audit, Assurance & Ethics

- Q.3** The users referred to, in the definition are assumed those who are expected to have basic knowledge as to: 04
- (a)
- Business activities and accounting
 - Concept of materiality
 - Limitations of financial reporting
 - Make reasonable economic decisions on the basis of Financial Statements.
- (b) The auditor considers materiality in evaluating the effect of misstatement. 04
- In this case, the amount of misstatement is less than 1% of net profit. ISA 320, materiality however requires that the auditor should consider both the amount (quantity) and nature (quality) of misstatement. The materiality level also depends upon the aspect of the financial statement being considered. Here, through the misstatement is less than 1% of net profit, the nature of error is serious. Also the misstatement is material in relation to total emoluments of the director. (19.23%).
- The auditor will therefore have to issue a qualified opinion.

Total Marks 08

- Q.4 1 mark per point up to a maximum of 6 marks** 06
- (a) **1 mark per point up to a maximum of 3 marks**

In order to establish whether the preconditions for an audit are present, the auditor shall:

- Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable 1 mark
- Obtain the agreement of management that it acknowledges and understands its responsibility:
 - i) For the preparation of the financial statements in accordance with the applicable financial reporting framework 1 mark
 - ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error 1 mark
 - iii) To provide the auditor with:
 - a) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters; 1 mark
 - b) Additional information that the auditor may request from management for the purpose of the audit; and 1 mark
 - c) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence. 1 mark

- (b) **Definition:** 03
- Written Representation (also called management/client representation) is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. 1 mark

Objectives/Purposes of Written Representation:

- To avoid confusion and disagreement on oral representations 1 mark
- To remind management about their responsibility for preparation of financial statements and for completeness of information provided to auditor 1 mark
- To confirm certain matters or to support other audit evidence 1 mark

Total Marks 09



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Q.5. 1 mark per point up to a maximum of 4 marks. Other appropriate answers to be given 04
(a) marks as well

It is important to have sound internal controls in the Purchases and Trade Payables system so that it can ensure that:

- Goods and services for an entity are only requisitioned when required.
- Goods and services are supplied in accordance with the requirements of an entity in terms of quality and quantity and at the best available price.
- Only goods and services required by an entity are accepted as a basis for subsequent payment.
- Invoices paid by an entity relate to goods and services actually received.
- Payment is made to suppliers on a timely basis for goods and services received by an entity.
- All bona-fide transactions relating to the purchases of goods and services are entered on a timely basis into the accounting records of an entity.

(b) 1 mark per point up to a maximum of 3 marks. 03

(i) Requisitioning and authorization of purchases

- The task of requisitioning for the purchase of goods and services should be allocated only to specified responsible employees of the company.
- Requisitions for the purchase of goods and services should be communicated on specified forms with uniform detail requirements including justification for the purchase.
- The task of raising purchase orders should be allocated to responsible buying officials of Henna separate from the goods received and accounting functions.
- Strict controls should be maintained over the physical security of purchase order which should be pre-numbered.
- Purchase order stationery should be multi-part, with copies being provided to the accounts department for matching to subsequent goods received documentation and invoice(s) as appropriate. A copy should also be forwarded to the goods received department for checking to subsequent deliveries.
- The purchase orders/requisitions should be authorized by the relevant authority.

(b) 1 mark per point up to a maximum of 2 marks 02

(ii)

Acknowledgement of the receipt of goods and return of goods to suppliers.

- Goods received personnel should be separate from the ordering and accounting functions of Henna.
- All goods received should be inspected and checked to copy purchase orders as to classification, quality and quantity.
- Goods accepted should be recorded on pre-numbered multi-part stationery with one copy being forwarded to the accounts department for subsequent matching with purchase order(s) and invoice(s).
- Goods returned to suppliers should be recorded on pre-numbered multi-part stationery with one copy being forwarded to the accounts department for matching to credit note(s). A copy should also be dispatched with the specified goods returned for acknowledgement of delivery and returning to M

(b) 1 mark per point up to a maximum of 4 marks 04

(iii)

Checking and authorization of purchase invoices prior to batching.

- Individuals involved in the processing of purchase invoices through the company's accounting system should be separate from the ordering, goods received and payment functions.



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Solutions – Audit, Assurance & Ethics

- All purchase invoices received by Henna should be immediately forwarded to the company's accounts department.
- Invoice details and arithmetical accuracy should be checked (and evidenced as such) and discrepancies resolved before further processing.
- Invoices should be 'matched' with purchase order(s) and goods received note(s) and discrepancies resolved before further processing.
- Matched invoices should be forwarded to the appropriate responsible official(s) in the company for authorization and approval of accounts (general ledger) coding as appropriate.
- There should be separate approval procedures, involving appropriate responsible officials of Henna, for the approval of invoices relating to utilities and other sundry services received not subject to the normal purchase ordering and goods received procedures.
- Where invoices are forwarded to responsible officials of the company, a detailed register should be maintained to track their progress as appropriate.
- Prior to batching, invoices should be pre-numbered in sequential order to facilitate completeness of processing.

Total Marks **13**

Q.6. 1 mark per procedure (other appropriate procedures will also be given marks). **08**
(a) Maximum two marks per heading can be given

Irrecoverable Debts

- Agree reported irrecoverable debts value to underlying working paper schedules.
- Review customer correspondence files, solicitors/legal correspondence and results of trade receivables circularization – if carried out – for evidence of irrecoverable debts.
- Confirm accuracy of aged trade receivables balance by test checking known cash receipts paid against earlier invoices raised.
- Review aged trade receivables schedule and compare recognized irrecoverable debts to this, inquire into any longstanding unpaid receivables balances.
- Examine customer receipts after the reporting period and check to schedule of irrecoverable debts schedule.
- Examine credit notes raised after the reporting period to identify any balances erroneously omitted from irrecoverable debts schedule.
- Inquire into reasons for exceptional balances included in irrecoverable debts value.

Trade Payables

- Agree reported trade payables values to trade payables control account reconciliation and underlying working papers/schedules.
- Carry out analytical procedures and make enquiries as appropriate, ensuring that 54% increase on previous year balance makes sense taking all matters into account.
- Check reconciliation of supplier account statements to trade payable ledger balances, prepared by Rehman Co staff. Enquire into any abnormalities and carry out further reconciliations as required.
- Review cut-off procedures for goods received and recognition of amounts payable at 31 March 2018. Test to ensure accuracy.
- Review unmatched goods received notes (goods received but associated invoice not received at 30 March 2018), and ensure inclusion in trade payables value.
- Review trade payables control account postings immediately, prior to and post 31 March 2018 and enquire into accuracy of unusual items.



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Accruals

- Agree reported accruals value to underlying working papers/schedules.
- Carry out analytical analysis procedures and raise enquiries as appropriate ensuring that 40% decrease or previous year balance makes sense taking all matters into account.
- Compare budget expenditure with actual reported expenditure in income statement and enquire into whether any reported under-spend(s) could be represented by omitted/erroneous accruals.
- Review expenditures and postings to the general ledger, after the reporting period, paying particular attention to known accrual expense accounts, to identify possibly omitted/erroneous accruals.
- Compare expense heading relationships to sales or other appropriate measures for current year to those of previous year to identify possible omitted/erroneous accruals.
- Identify any round sum amount accruals and make appropriate enquiries to test accuracy of them.

Provision

- Read relevant correspondence (including legal correspondence) relating to the damages claim and compare the value of the claim as reported in the company statement of profit or loss to underlying estimates and opinions available.
- Discuss the nature and amount of the claim with senior responsible officials of the company, and inquire as to underlying rationale of the sum provided. If appropriate, with permission of the company, seek confirmation of value of claim from an independent expert.
- Examine the minutes of board or management meetings to obtain substantiating evidence as to the existence and nature of the claim.
- Scrutinize appropriate expense accounts to identify expenditures already incurred in connection with the claim and costs possibly duplicated in the final provision.
- Obtain permission from the directors of Rehman Co and write to the company legal advisers to confirm the likelihood of Rehman Co having to settle the claim and the likely value of the claim.
- Check disclosure of provision in financial statements in accordance with relevant international financial reporting standards.

(b) 1 mark per valid discussion up to a maximum of 2 marks

02

An auditor must achieve a balance between the requirement to obtain sufficient appropriate audit evidence and the requirement to complete the audit on a timely basis at a realistic cost. Consequently, in the normal course of events, provided there is sufficient appropriate audit evidence available from other sources, the auditor may decide that there is little useful purpose in carrying out a trade payables circularization. **1 mark**

Third party evidence is a good source of audit evidence and a large proportion of the documentation available when auditing trade payables is produced by third parties, for example, suppliers' invoices, statements and correspondence. **1 mark**

Provided the auditor has sufficient confidence in the evidence otherwise available, then (s)he may consider it unnecessary to carry out a trade payables circularization. **1 mark**

(c) Mark allocation has been given below. Maximum of 6 marks can be given

06

Provision needs to increase by Rs. 81,000. As the management has refused to make this adjustment, liabilities and expenses are understated by Rs. 81,000. **2 marks**



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This amount is 8.2% of profit before tax, so this is material. 1 mark

This is an uncorrected material misstatement. 1 mark

A modified opinion will be given. As this is not likely to be pervasive, the opinion will be Qualified, Except For. 2 marks

The heading of the opinion paragraph will change to Qualified Opinion and the heading of basis for opinion paragraph will change to Basis for Qualified Opinion. 1 mark

The basis for qualified opinion paragraph will detail the nature, amount, impact and relevant financial reporting framework reference. 1 mark

Total Marks **16**

Q.7. Maximum 10 marks for event 1 and maximum 7 marks for even 2. **10**

(a) Event 1

The key customer entering into receivership provides additional evidence of conditions at the statement of financial position date. This is therefore an adjusting event. 1.5 marks

The amount of Rs.175,000 was owed by the customer to FMH at this date and the letter from the liquidator indicates that this amount may now not be paid. The value of receivables is therefore overstated by the amount of Rs. 175,000 and a provision for a bad debt is required. 1.5 marks

The amount is material to profit (23% of profit) and to Total assets (14.6%). 1 mark

Audit procedures will include:

Obtain a copy of the letter from the liquidator confirming that the balance due from customer of Rs. 175,000 will not be paid. 1.5 marks

Review the list of receivables to ensure only this amount is due from this customer in order to ensure that all receivables from this customer can be written off. 1.5 marks

Review post year end receipts to see if any money has been received from the customer. 1.5 marks

If adjustment has been made in the financial statements, obtain the amended financial statements, ensuring that the directors have included the provision as outlined above. 1.5 marks

If the adjustment has not been made, consider the impact on opinion. 1.5 marks

Review F/S disclosure to ensure disclosure requirements of IAS 37 (relating to provision) have been met. 1.5 marks

(b) Event 2

The fire at the Switzerland hotel and the poor quality holidays took place in April, which is after the end of the reporting period. This event is therefore indicative of conditions after the statement of financial position date and so is not an adjusting event; the event could not be foreseen at the end of the reporting period. 1.5 marks

No adjustment is needed to the financial statements. 1.5 marks

The amount claimed is material to profit (6.9% of PBT) and to SOFP (4.3% of TA) 1 mark

As this is material, a disclosure note may be required. 1 mark

Audit procedures will include:

Obtain a copy of the letter from the lawyer documenting the claim of the customers of FMH. 1.5 marks

07



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Discuss the matter with the directors and ask whether they will disclose the event in the financial statements. **1.5 marks**

If disclosure will be made, review the financial statements to ensure that disclosure is appropriate. **1.5 marks**

If disclosure will not be made, consider the impact on opinion. **1.5 marks**

Total Marks 17

Q.8. Auditors should NOT:

04

(a)

- **Disclose** confidential information acquired as a result of professional relationships unless, permitted by client/employer or required by law or there is a professional right or duty to disclose. **2 marks**
- **Use** confidential information for his personal advantage or advantage of third party.

Confidential information may be disclosed in following circumstances:
(maximum 2 marks if at least two exceptions are explained)

- If disclosure is permitted by client/employer
- If disclosure is required by law e.g.
 - Disclosure of infringements of the law.
 - Production of documents in the course of legal proceedings.
- When there is a professional right or duty to disclose:
 - To comply with technical standards and ethics requirements (e.g. when required to communicate with lawyer, professional or regulatory authorities)
 - To comply with Quality Control Review Program of the Institute.
 - To respond to an inquiry/investigation by the institute or other regulatory authority.
 - To protect the professional interest of a chartered accountant in legal proceedings.

In their role as auditor of Sun Co, it is likely that firm will have a professional duty to report certain matters to the financial services industry regulator in the country.

A breach of the financial regulations is likely to fall into one of these categories.

If the breach identified is not one which the firm is required to report to the regulator, they may have a right to report the matter if it is considered to be in the public interest. There is no specific definition of what would constitute a matter of public interest. However, if the firm has made a public interest disclosure, they should have sought legal advice before doing so. **2 marks**

(b)

Raheel has been the engagement partner for 11 years. This is a Long Association of Senior Personnel with Assurance Client and gives rise to familiarity threat as he might be too trusting of the management.	Raheel should be rotated from the team.
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07



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<p>The audit engagement partner and Finance Director regularly play golf together. Whilst it would be normal for audit engagement partners to entertain clients (including by playing golf together), the auditor must remain independent of the client, and the fact that the Finance Director and audit engagement partner “regularly” play golf together, suggests a close relationship has been formed.</p> <p>A close relationship would create a familiarity threat as the audit engagement partner may be too trusting of Bilal, or too sympathetic to Bilal’s interests.</p>	<p>The whole audit team must be, and be seen to be independent of the client. If the engagement partner no longer appears to be independent of the client, he should be removed from the audit team and replaced (rotated). Alternatively, an independent partner review may be appropriate; in order to ensure the engagement partner has performed his work objectively</p>
<p>Bilal has asked the firm to represent Sun Co in court to defend an unfair dismissal claim. Representing an audit client in the resolution of a dispute in court, where the amounts are material to the financial statements, would create a significant advocacy and self-review threat. The auditor would be and be seen to be promoting the client’s interests and so not independent.</p> <p>In addition, if an auditor was to represent their client, they would not be able to objectively review the provision included in the financial statements in relation to the case.</p>	<p>The threat would be significant that no safeguard could reduce the threat to an acceptable level; therefore the auditor should politely refuse the request explaining the reasons for their decision.</p>
<p>The Finance Director’s daughter has requested to join the audit team. This would create a familiarity threat as well as potential self-interest and intimidation threats.</p> <p>The immediate family relationship creates a familiarity threat as Bilal’s daughter would not be able to review the financial statements objectively as she would be too trusting of Bilal and too sympathetic to his interests.</p>	<p>Bilal’s daughter should not work on the audit or any other assignments that the audit firm undertakes for Sun Co.</p>
<p>Bilal wants the fee to be based on profit before tax. This is contingent fee and gives rise to self-interest and intimidation threats.</p> <p>The team’s might not work objectively in order to earn higher fee.</p>	<p>The threat would be significant that no safeguard could reduce the threat to an acceptable level therefore contingent fee cannot be charged.</p>

Total Marks

11
