



**Pakistan Institute  
of Public Finance Accountants**

**Corporate Sector**

**Model  
Solutions**

**Summer Exam-2019**

# **MODEL SOLUTIONS – DISCLAIMER**

## **INTRODUCTION**

The Model Solutions are provided to students for clear understanding of relevant subject and it helps them to prepare for their examinations in organized way.

These Model Solutions are prepared only for the guidance of students that how they should attempt the questions. The solutions are not meant for assessment criteria in the same pattern mentioned in the Model Solution. The purpose of Model Solution is only to guide the students in their future studies for appearing in examination.

The students should use these Model Solutions as a study aid. These have been prepared by the professionals on the basis of the International Standards and laws applicable at the relevant time. These solutions will not be updated with changes in laws or Standards, subsequently. The laws, standards and syllabus of the relevant time would be applicable. PIPFA is not supposed to respond to individual queries from students or any other person regarding the Model Solutions.

## **DISCLAIMER**

The Model Solutions have been developed by the professionals, based on standards, laws, rules, regulations, theories and practices as applicable on the date of that particular examination. No subsequent change will be applicable on the past papers solutions.

Further, PIPFA is not liable in any way for an answer being solved in some other way or otherwise of the Model Solution nor would it carry out any correspondence in this regard.

PIPFA does not take responsibility for any deviation of views, opinion or solution suggested by any other person or faculty or stake holders. PIPFA assumes no responsibility for the errors or omissions in the suggested answers. Errors or omissions, if noticed, should be brought to the notice of the Executive Director for information.

If you are not the intended recipient, you are hereby notified that any dissemination, copying, distributing, commenting or printing of these solutions is strictly prohibited.

# **Business Laws**

**(Level-2)**



## **Summer Exam-2019** **Solutions – Business Law**

### **Ans.1 Sec 247 of Companies Act 2017:**

#### **Qualification and disqualification of auditors:**

(1) A person shall not be qualified for appointment as an auditor:

(a) in the case of a public company or a private company which is subsidiary of a public company or a private company having paid up capital of three million rupees or more unless such person is a chartered accountant having valid certificate of practice from the Institute of Chartered Accountants of Pakistan or a firm of chartered accountants; and

(b) in the case of a company other than specified in clause (a), unless such person, is a chartered accountant or cost and management accountant having valid certificate of practice from the respective institute or a firm of chartered accountants or cost and management accountants, having such criteria as may be specified:

Provided that for the purpose of clause (a) and (b), a firm whereof majority of practicing partners are qualified for appointment shall be appointed by its firm name to be auditors of the company.

(2) Where a partnership firm is appointed as auditor of a company, only the partners, who meet the qualification requirements as provided in sub-section (1), shall be authorized to act and sign on behalf of the firm.

(3) None of the following persons shall be appointed as auditor of a company, namely:

(a) a person who is, or at any time during the preceding three years was, a director, other officer or employee of the company;

(b) a person who is a partner of, or in the employment of, a director, officer or employee of the company;

(c) the spouse of a director of the company;

(d) a person who is indebted to the company other than in the ordinary course of business of such entities;

(e) a person who has given a guarantee or provided any security in connection with the indebtedness of any third person to the company other than in the ordinary course of business of such entities;

(f) a person or a firm who, whether directly or indirectly, has business relationship with the company other than in the ordinary course of business of such entities;

(g) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;

(h) a body corporate;

(i) a person who is not eligible to act as auditor under the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan; and

(j) a person or his spouse or minor children, or in case of a firm, all partners of such firm who hold any shares of an audit client or any of its associated companies:

Provided that if such a person holds shares prior to his appointment as auditor, whether as an individual or a partner in a firm the fact shall be disclosed on his appointment as auditor and such person shall disinvest such shares within ninety days of such appointment.



## **Summer Exam-2019**

### **Solutions – Business Law**

#### **Ans.2 Sec 55 of Contract Act 1872:**

##### **Effect of failure to perform at fixed time, in contract in which time is essential:**

When a party to a contract promises to do a certain thing at or before a specified time, or certain things at or before a specified times, and fails to do any such thing at or before the specified time, the contract, or so much of it as has not been performed, becomes voidable at the option of the promisee, if the intention of the parties was that time should be of the essence of the contract.

##### **Effect of such failure when time is not essential :**

If it was not the intention of the parties that time should be of the essence of the contract, the contract does not become voidable by the failure to do such thing at or before the specified time; but the promisee is entitled to compensation from the promisor for any loss occasioned to him by such failure.

##### **Effect of acceptance of performance at time other than that agreed upon:**

If, in case of a contract voidable on account of the promisor's failure to perform his promise at the time agreed, the promisee accepts performance of such promise at any time other than that agreed, the promisee cannot claim compensation for any loss occasioned by the non-performance of the promise at the time agreed, unless, at the time of such acceptance he gives notice to the promisor of his intention to do so.

**Total Marks 10**

#### **Ans.3 Sec 2(a) of Contract Act 1872:**

**(b)**

When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal:

Following are the legal rules or essentials of a valid offer:

##### **1. It may be express or implied:**

An offer may be made either by words or by conduct. An offer, which is made by words spoken or written, is called an express offer. The offer, which is made by the conduct of a person, is called an implied offer.

Example:

1. M says to N that he will sell his motorcycle to him for Rs.40,000. It is an express offer.
2. A railway coolie carries the luggage of B without being asked to do so B allows him to do so. It is an implied offer.
3. The new Khan Transport Company runs buses on different routes to carry passengers at the scheduled fares. This is an implied offer by the company.

##### **2. It must create legal relation:**

The offer must be made in order to create legal relations otherwise, there will be no agreement. If an offer does into give rise to legal obligations between the parties it is not a valid offer in the eye of law.

Example:

1. A invites B to dinner B accept the invitation. It does not create any legal relations, so there is no agreement.



## **Summer Exam-2019**

### **Solutions – Business Law**

2. A offers to sell his watch to B for Rs.200 and B agrees. There is an agreement because here the parties intend to create legal relations.

3. Three friends joined to enter a newspaper competition and agreed to share any winnings. It was held the intended to create legal relations and their agreement was therefore a contract.

#### **3. It must be definite & clear:**

An offer must be definite and clear, if the terms of an offer are not definite and clear, it cannot be called a valid offer. If such offer is accepted it cannot create a binding contract.

Example:

A has two motorcycles. He offers B to sell one motorcycle for Rs.27,000. It is not a valid offer because it is not clear that which motor cycle A wanted to sell.

#### **4. It is different from invitation to offer:**

An offer is different from an invitation to offer. It is also called invitation to treat or invitation to receive offer. An invitation to offer looks like offer but legally it is not offer.

In the case of an invitation to offer, the person sending out the invitation does not make an offer but only invites the other party to make an offer. His object is to inform that he is willing to deal with anybody who after getting such information is willing to open negotiations with him. Such invitations for offers are not offers according to law and so cannot become agreement by acceptance.

Example:

1. Quotations, Catalogues of prices, display of goods with prices issue of prospectus by companies are examples of invitation to offer.

2. Display of goods in an auction sale is not an offer rather it is an invitation to offer. The offer will come from the buyer in the form of bids.

#### **5. It may be specific or general:**

When an offer is made to a specified person or group of persons, it is called specific offer. Such an offer can be accepted only by the person or persons to whom it is made. A general offer, on the other hand, is one, which is made to public in general and it may be accepted by any person who fulfils the conditions mentioned in it. Both specified and general offers are valid.

Example:

1. M makes an offer to N to sell his bicycle for Rs.800, it is a specific offer. In this case, only N can accept it.

2. A announces in a newspaper a reward of Rs.1,000 for any one who will return his lost radio. It is general offer.

#### **6. It must be communicated to the offeree:**

An offer is effective only when it is communicated to the offeree. If an offer is not communicated to the offeree it cannot be accepted. Thus an offer, which is not communicated, is not a valid offer. It applies to both specific and general offers.

Example:

A without knowing that a reward has been offered for the arrest of a particular criminal, catches the criminal and informs the police. A cannot recover the reward as he was not aware of it.



## **Summer Exam-2019**

### **Solutions – Business Law**

#### **7. It should not contain negative condition:**

An offer should not contain a condition the non-compliance of which may be assumed as acceptance. An offeror cannot say that if acceptance is not communicated up to a certain date, the offer would be presumed to have been accepted. If the offeree does not reply, there is no contract, because no obligation to reply can be imposed on him, on the ground of justice no agreement because such condition cannot be imposed on the offeree. It is only a one-sided offer.

Example:

A wrote to B offering to sell his book for Rs.500 adding that if he didn't reply within 5 days, the offeree would be presumed to have been accepted. There is no agreement b/c such condition can't be imposed on the offeree. It is only a one-sided offer.

#### **8. It may be subject to any terms & conditions:**

An offeror may attach any terms and conditions to the offer he makes. He may even prescribe the mode of acceptance. There is no contract, unless all the terms of the offer are accepted in the mode prescribed by the offeror. It must be noted that if the offeror asks for sending the acceptance by telegram and the offeree sends the acceptance by letter, and the offeror may reject such acceptance.

Example:

A asks B to send the reply of his offer by telegram but B sends reply by letter, A may reject such acceptance because it is opposed to the prescribed mode of communication.

#### **9. It must not contain cross offers:**

When two parties make similar offers to each other, in ignorance of each other's such offers are called cross-offers. The acceptance of cross-offers does not result in complete agreement.

Example:

On 23<sup>rd</sup> December 2007, A wrote B to sell him 100 ton of iron at Rs.10,000 per ton. On the same day, B wrote to A to buy 100 tons of iron at Rs.10,000 per ton. There is no contract between A & B because the offers were similar and made in ignorance of the other and so there is no acceptance of each other's offer.

**Total Marks      10**

**Ans.4      Sec 50 of the Sale of Goods Act**

**(a)      Right of stoppage in transit:**

Subject to the provisions of this Act, when the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them in transit, that is to say, he may resume possession of the goods as long as they are in the course of transit, and may retain them until the payment or tender of the price

**02**

**Ans.4      Sec 34 of the Sale of Goods Act**

**(b)      Effect of part delivery**

A delivery of part of goods, in progress of the delivery of the whole, has the same effect, for the purpose of passing the property in such goods, as a delivery of the whole; but a delivery of part of the goods, with an intention of severing it from the whole, does not operate as a delivery of the remainder

**05**



## Summer Exam-2019 Solutions – Business Law

- Ans.4** There are three types of goods: **03**  
(c) (i) Existing goods  
(ii) Future goods  
(iii) Contingent goods
- Total Marks 10**
- Ans.5** Followings are the sources of laws in Pakistan: **04**  
(a) (i) Legislation  
(ii) Precedent  
(iii) Custom  
(iv) Agreement
- Ans.5** There are three types of the prerogative order: **03**  
(b) (i) Madamus  
(ii) Prohibition  
(iii) Certiorari
- Total Marks 07**
- Ans.6** **Sec 131 of Companies Act 2017:** **10**  
(a) **Statutory meeting of company:**
- (1) Every public company having a share capital shall, within a period of six months from the date at which the company is entitled to commence business or within nine months from the date of its incorporation whichever is earlier, hold a general meeting of the members of the company, to be called the —statutory meeting:  
(Provided that in case first annual general meeting of a company is decided to be held earlier, no statutory meeting shall be required.)
- (2) The notice of a statutory meeting shall be sent to the members at least twenty-one days before the date fixed for the meeting along with a copy of statutory report.
- (3) The statutory report shall state-
- (a) the total number of shares allotted, distinguishing shares allotted other than in cash, and stating the consideration for which they have been allotted;
- (b) the total amount of cash received by the company in respect of all the shares allotted;
- (c) an abstract of the receipts of the company and of the payments made there out up to a date within fifteen days of the date of the report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made there out, and particulars concerning 70 the balance remaining in hand, and an account or estimate of the preliminary expenses of the company showing separately any commission or discount paid or to be paid on the issue or sale of shares or debentures;
- (d) the names, addresses and occupations of the directors, chief executive, secretary, auditors and legal advisers of the company and the changes, if any, which have occurred since the date of the incorporation;
- (e) the particulars of any contract the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification;





## **Summer Exam-2019**

### **Solutions – Business Law**

- (f) the extent to which underwriting contracts, if any, have been carried out and the extent to which such contracts have not been carried out, together with the reasons for their not having been carried out; and
- (g) the particulars of any commission or brokerage paid or to be paid in connection with the issue or sale of shares to any director, chief executive, secretary or officer or to a private company of which he is a director; and certified by the chief executive and at least one director of the company, and in case of a listed company also by the chief financial officer.
- (4) The statutory report shall also contain a brief account of the state of the company's affairs since its incorporation and the business plan, including any change or proposed change affecting the interest of shareholders and business prospects of the company.
- (5) The statutory report shall, so far as it relates to the shares allotted by the company, the cash received in respect of such shares and to the receipts and payments of the company, be accompanied by a report of the auditors of the company as to the correctness of such allotment, receipt of cash, receipts and payments.
- (6) The directors shall cause a copy of the statutory report, along with report of the auditors as aforesaid, to be delivered to the registrar for registration forthwith after sending the report to the members of the company.
- (7) The directors shall cause a list showing the names, occupations, nationality and addresses of the members of the company, and the number of shares held by them respectively, to be produced at the commencement of the meeting and to remain open and accessible to any member of the company during the continuance of the meeting.
- (8) The members of the company present at the meeting shall be at liberty to discuss any matter relating to the formation of the company or arising out of the statutory report, whether previous notice has been given or not, but no resolution of which notice has not been given in accordance with the articles may be passed.
- (9) The meeting may adjourn from time to time, and at any adjourned meeting any resolution of which notice has been given in accordance with the articles, either before or after 71 the original meeting, may be passed, and an adjourned meeting shall have the same powers as an original meeting.
- (10) The provisions of this section shall not apply to a public company which converts itself from a private company after one year of incorporation.
- (11) 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.

**Ans.6 Sec 133(3)(a) of Companies Act 2017**

02

- (b)** Calling of extraordinary general meeting.- (3) The board shall, at the requisition made by the members-, in case of a company having share capital, representing not less than one-tenth of the total voting power as on the date of deposit of requisition

**Total Marks 10**



## **Summer Exam-2019** **Solutions – Business Law**

**Ans.7 Sec 16(a) of the Sale of Goods Act**

05

**(a) Implied conditions as to quality or fitness:**

Subject to the provisions of this Act and of any other law for the time being in force, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale, except as follows:-

Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which the goods are required, so as to show that the buyer relies on the seller's skill or judgment, and the goods are of a description which it is in the course of the seller's business to supply (whether he is the manufacturer or producer or not), there is an implied condition that the goods shall be reasonably fit for such purposes: Provided that, in the case of a contract for the sale of a specified article under its patent or other trade name, there is no implied condition as to its fitness for any particular purpose.

**Total Marks 05**

**Ans.8 Sec 115 of Companies Act 2017**

**Disqualification for appointment as receiver or manager:**

The following shall not be appointed as a receiver or manager of the company's property, namely:-

- (a) a minor;
- (b) a person who is of unsound mind and stands so declared by a competent court;
- (c) a body corporate;
- (d) a director of the company;
- (e) an un-discharged insolvent unless he is granted leave by the court by which he has been adjudged an insolvent; or
- (f) a person disqualified by a Court from being concerned with or taking part in the management of the company in any other way, unless he is granted leave by the Court.

**Total Marks 06**

**Ans.9 Sec 152 of Companies Act 2017**

**Inspection of records of Resolutions and Meetings:**

(1) The books containing the minutes of proceedings of the general meetings shall be open to inspection by members without charge during business hours, subject to such reasonable restrictions as the company may by its articles or in general meeting impose so that not less than two hours in each day be allowed for inspection.

(2) A member shall at any time after seven days from the meeting be entitled to be furnished, within seven days after he has made a request in that behalf to the company, with a certified copy of the minutes of any general meeting at such charge not exceeding the amount as may be fixed by the company.

(3) If any inspection required under sub-section (1) is refused, or if any copy required under sub-section (2) is not furnished within the time specified therein, a member is guilty of an offence shall be liable to a penalty of level 1 on the standard scale, and the registrar may direct immediate inspection or supply of copy, as the case may be.

**Total Marks 10**



## **Summer Exam-2019** **Solutions – Business Law**

**Ans.10 Sec 176 of Contract Act 1872:**

**Pawnee's right where pawnor makes default :**

If the pawnor makes default in payment of the debt, or performance, at the stipulated time of the promise, in respect of which the goods were pledged, the pawnee may bring a suit against the pawnor upon the debt or promise, and retain the goods pledged as a collateral security; or he may sell the thing pledged, on giving the pawnor reasonable notice of the sale.

If the proceeds of such sale are less than the amount due in respect of the debt or promise, the pawnor is still liable to pay the balance. If the proceeds of the sale are greater than the amount so due, the pawnee shall pay over the surplus to the pawnor.

**Total Marks    10**

**Ans.11 Sec 25 of Partnership Act 1932**

Liability of a partner for acts of the firm – Every partner is liable, jointly with all the other partners and also severally, for all acts of the firm done while he is a partner.

- a) Yes
- b) Yes
- c) yes

03

**Total Marks    10**

\*\*\*\*\*

# **Business Economics**

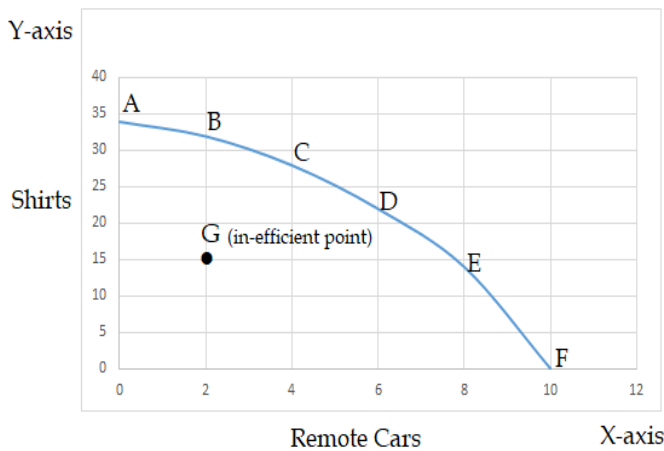
**(Level-2)**



## Summer Exam-2019 Solutions – Economics

**Q.1.**  
**(a)**

06



**Q.1. Based on the table given in the Question, if economy is currently producing at point 'B':**

04

**(b)**

- (i)** The opportunity cost of one more Remote car is  $4/2$ , 2 shirts.
- (ii)** The opportunity cost of one more shirt is  $2/2$ , 1 Remote Car.

**Total Marks**

**10**

**Q.2. Law of Demand:** “As the price of a product falls, *ceteris paribus*, the demand for the product *extends and conversely* as the price of a product rises, *ceteris paribus*, the demand for the good *contracts*.”

06

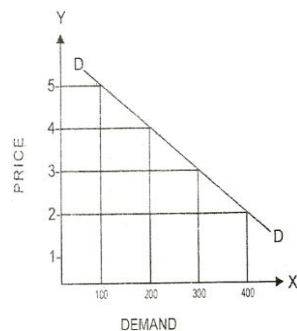
**Ceteris paribus:** a Latin expression which means ‘*other things remaining equal*’

**Explanation of the law Demand schedule:**

Price in dollars.	Demand in Kg.
5	100
4	200
3	300
2	400

The table shows the demand of all the consumers in a market. When the price decreases there is increase in demand for goods and vice versa. When price is \$5 demand is 100 kilograms. When the price is \$4 demand is 200 kilograms. Thus the table shows the total amount demanded by all consumers various price levels.

**Diagram**



There is same price in the market. All consumers purchase commodity according to their needs. The market demand curve is the total amount demanded by all consumers at different prices. The market demand curve slopes from left down to the right.



## Summer Exam-2019 Solutions – Economics

**Q.2.**  
**(b)**

Price cookies ( per Dozen) ( Rs)	Quantity demanded (dozens)
400	50
600	40

04

$$\text{Price elasticity of demand} = \frac{\Delta Q}{Q_1+Q_2/2} \div \frac{\Delta P}{P_1+P_2/2}$$

$$= \frac{-10}{50+40/2} \div \frac{200}{400+600/2}$$

$$= \frac{-10}{45} \div \frac{200}{500}$$

$$= -0.555$$

PED < 1 (Inelastic demand)

**Total Marks      10**

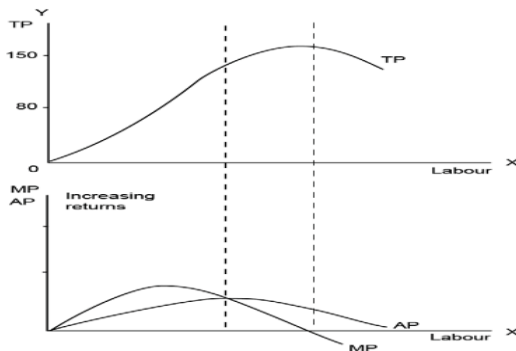
**Q.3.**  
**(a)**

Total production: the overall quantity of output that a firm produces usually specified in relation to a variable input.

06

Marginal Production: The change in total production due to one unit change in variable factor is called Marginal production.

Average Production: Production per unit of variable factor is called Average Production.



### Relationship between Total Production and Marginal Production

- When Total Production increase, Marginal Production may increase or decrease but greater than zero.
- When Total Production is maximum, Marginal Production is equal to zero.
- When Total Production decreases, Marginal Production is less than zero.

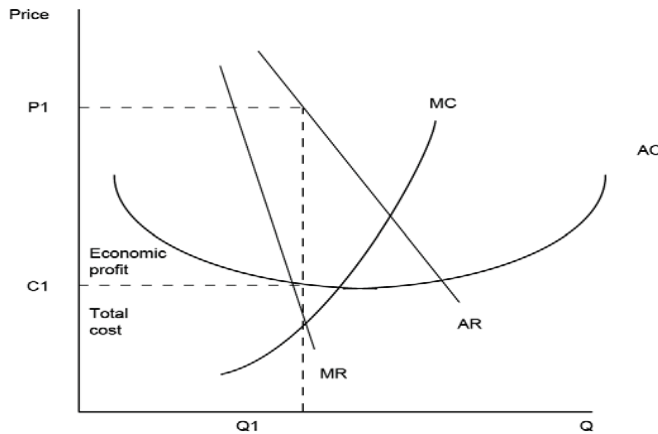
### Relationship between Average Production and Marginal Production

- When Average Production increases, Marginal Production is greater than Average Production.
- When Average Production is maximum, Marginal Production is equal to Average Production.
- When Average Production decreases, Marginal Production is lesser than Average Production.



## Summer Exam-2019 Solutions – Economics

- Q.3.** Pak Juice is a monopolistic firm, and earning abnormal profit in the short run. 04  
**(b)** A firm is in equilibrium position at the output where  $MC=MR$ , and  $MC$  cuts  $MR$  from below.



**Total Marks 10**

- Q.4. Productive Inefficiency:** If a firm does not produce at the lowest of average cost, it is called Productive inefficiency. 04  
**(a)**

**Technical Inefficiency:** When a firm is not producing the maximum output from the minimum quantity of inputs, it is called technical inefficiency.

- Q.4.** The following factors determine the success or failure of a cartel; 06  
**(b)**

**Control on supply:** Whether price cartel is consisting of most or all of the selling firms of the product? If price cartel is controlling the supply, price cartels are successful otherwise price cartel will break.

**Close substitutes:** Price cartel is successful if close substitutes are not available in the market because at higher price agreed on by the oligopoly firms if close substitutes are available buyers will shift demand to close substitutes, therefore, price cartels will not exist.

**The ease with which supply can be controlled:** If the supply in the market is easily controlled by the oligopoly firms, price cartel is successful. However, if supply (in case of agricultural crops) is dependent on climatic conditions and weather conditions, or discovery of new natural resources price cartel may not be successful as in case of favourable climatic conditions there may be a better and bumper harvest of agricultural products.

**Price elasticity of demand:** Success of price cartels is dependent on price elasticity of demand. If price elasticity of demand is elastic i.e. at higher price, buyers contract demand more proportionately, price cartels will be unsuccessful. But if the price elasticity of demand is in-elastic, price cartels are successful because higher price agreed-on may be established.

**Agreement on individual share:** If all the firms in cartel agree on their allotted quota of supply, price cartels are successful. However, if firms secretly increase production and sale of the product, price cartels will collapse because at increased supply, charging a higher agreed-on price would not be possible.

**Total Marks 10**



## Summer Exam-2019 Solutions – Economics

**Q.5. Consumption Function:** A function that describes a direct relationship between income level and consumption. In two sector economy consumption function is;  
(a)  $C = a + bY$  04

- Autonomous Consumption (Consumption that is independent of income level and exists even the income is zero)
- Induced Consumption (Slope of Consumption Curve). It is fraction by which consumption increases in response of increase in Income level. i.e. MPC marginal propensity to consume.

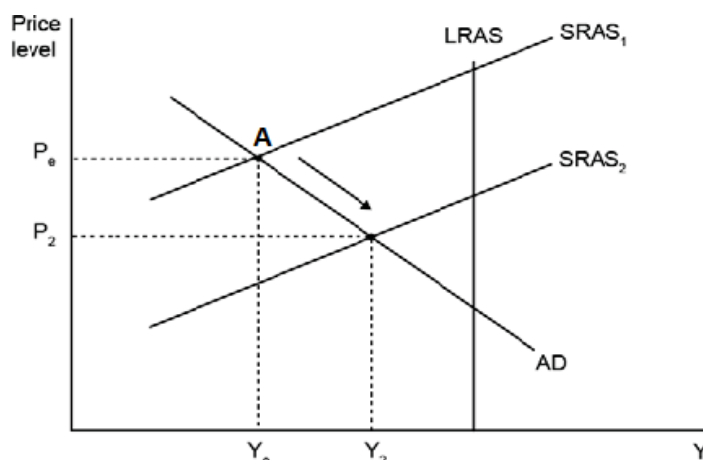
**Q.5.** The main determinants of consumption are as follows: 06  
(b)

1. **Disposable income:** Disposable income is key factor of determining consumption. As income level increases, consumption increases and if income level decreases, consumption level decreases. However due to change in disposable income consumption curve does not shift.
2. **Distribution of wealth:** if it is unequal, more of the income is in the hands of rich people with a lower propensity to consume. A more equal distribution increases consumption
3. **Expectations of price changes:** if prices are expected to rise, then the population will move to spend their income quicker in the present, hence increasing consumption
4. **Changes in Fiscal Policy:** if low income households are taxed more, then overall consumption decreases

**Total Marks 10**

**Q.6. Macro Economic Equilibrium:** It refers the point (level of Income) at which demand for goods and services is equal to supply of goods and services. i.e. Aggregate Demand = Aggregate Supply. 02  
(a)

**Q.6. Decrease in Cost of Production** 08  
(b) Decrease in cost of production will cause increase in short run aggregate supply due to which SRAS will be shifted outward.



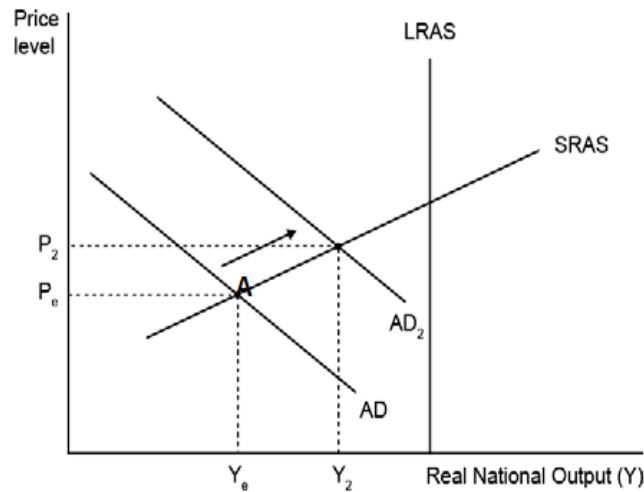




## Summer Exam-2019 Solutions – Economics

### Increase in Consumption level

Increase in consumption will cause increase in aggregate demand, due to which aggregate demand curve will be shifted outward.



**Total Marks 10**

- Q.7. Demand-deficient unemployment:** when an economy is in recession or a period of low growth, aggregate demand may be deficient to meet the potential output in an economy. Firms therefore cutback production; in the process reducing the amount of labour that is required. 05
- (a)

**Real wage unemployment:** also known as classical unemployment, occurs when wages are kept artificially high through powerful trade unions. A higher minimum wage means that the demand for labour is less, because firms cannot afford to employ that many people.

- Q.7.** Following steps can be taken to reduce unemployment in Pakistan: 05

- (b)
- 1. Education and training:** Those who are unemployed since long could be simply taught new skills that might find them a job in developing industries. Also, people are change averse, in spite of the initiative taken up, they might be quite unwilling to take up the new role. Therefore, the process takes enough time translated in terms of a number of years to get the unemployment figures reduced permanently.
  - 2. Financial assistance:** This is also witnessed that unemployed people are concentrated in certain areas. So the government can take the initiative of providing subsidies, grants and even tax exemptions to those industries that might set up at such depressed places. Even the individuals could be provided financial assistance to move to places where they find a job by way of low cost housing and grants.
  - 3. Develop a culture for entrepreneurship:** Devise mechanisms that could be the best talent together. Starting outreach program early with the help of accelerators, mentors and networks can set the stage for youth to think about entrepreneurship.
  - 4. Expansionary Fiscal and Monetary Policy:** Expansionary Fiscal and Monetary policy causes increase in aggregate demand and economic growth. Increase in real output leads to decrease in unemployment.
  - 5. More importance to employment programmes:** In five year plans more importance should be given to employment. The programmes like irrigation, roads, flood control, power, agriculture, rural electrification can provide better employment to people.

**Total Marks 10**



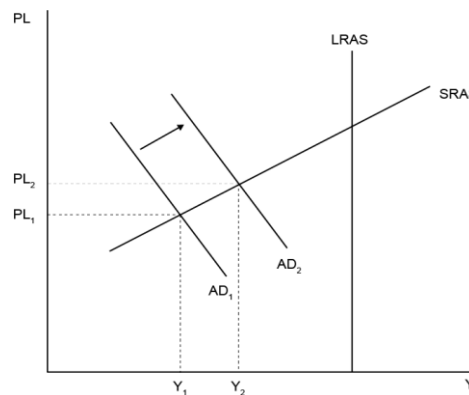
## Summer Exam-2019 Solutions – Economics

- Q.8. Monetary Policy:** A policy of central Bank to control inflation or to overcome recession through changing money supply is called Monetary Policy. 06

(a)

One of the objectives of monetary policy is to increase the economic growth in the economy. To increase the pace of economic growth, central bank makes expansionary monetary policy. For this, central bank increases the money supply to boost the aggregate demand and output in the economy.

To expand money supply, central bank decreases bank rate, decreases reserve ratio, and buys bonds and securities from open market.



- (b) Deposit at ABC Bank = \$ 600,000 04

Reserve Requirement = 20%

Reserves = 20% of 600,000 = \$ 120,000

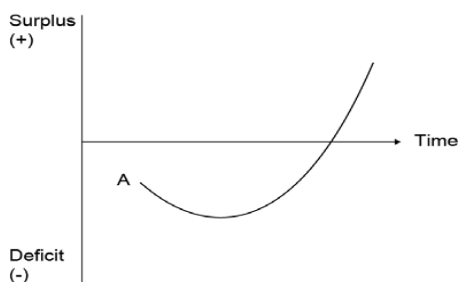
Reserves kept by Bank = \$ 160,000

Excess Reserves held by Bank = 160,000m – 120,000 = \$ 40,000

**Total Marks**

**10**

- Q.9.** Due to devaluation of currency exports will become relatively cheaper, whereas imports will become relatively more expensive. Hence, it will redress the imbalance in the balance of payments. However, the J-curve shows how in the short run, the deficit may get worse before improving. 05
- (a)



Assuming that economy starts at Point A, the government decides to devalue the currency. The reason the deficit first gets bigger is to do with a time lag. Producers and consumers will take time to adjust to the change in currencies. Producers, for example, will have orders with firms in other countries at agreed prices, and will not be able to respond to the price change.

Export revenues may therefore not rise immediately. However import revenues may increase sharply due to high inelastic demand for foreign goods. This would make the deficit greater.



## Summer Exam-2019 Solutions – Economics

- Q.9. Money Market:** Money market can be defined as a type of financial market where borrowers and lenders (investors) trade financial assets, with short-term maturity and high liquidity. 05
- (b)
- (i) **Certificates of Deposit:** A CD (Certificate of Deposit) states that a deposit has been made with a bank for fixed period of time, at the end of which it will repaid with interest.
- (ii) **Commercial Paper:** Commercial paper is a [money-market security](#) issued (sold) by large [corporations](#) to obtain [funds](#) to meet short-term [debt](#) obligations (for example, [payroll](#)), with the promise to pay the face amount to holder on the maturity date specified on the note. Return on commercial papers is higher than treasury bills.

**Total Marks 10**

- Q.10. Demand for Money:** The amount of money which people prefer to keep in cash is called demand for money. 02
- (a)
- (b) **Capital Market:** Capital market can be defined as a type of financial market where buyers and sellers trade long-term financial securities, with a maturity period of more than a year. 02
- (c) **Fiat Money:** Fiat money is money with no intrinsic value. The value comes solely from the fact that the government has decreed that it has money for that purpose. It is used by most countries, as it can be designed to allow a stricter adherence to money's main functions. 02
- (d) **Indifference Curve:** A curve that shows different combinations of two goods which give equal satisfaction to consumer. 02
- (e) **Inflation:** A continuous or persistent increase in the general price level is called inflation in an economy in a year. 02

**Total Marks 10**

\*\*\*\*\*

# **Cost Accounting**

**(Level-2)**

**Summer Exam-2019**  
**Solutions – Cost Accounting**

**Q.1. Double Entry (1 mark per entry)**

06

**(a)**

Dr: WIP	13,500	Cr: Material Control Account	13,500
Dr: Production Overheads	1,800	Cr: Material Control Account	1,800
Dr: Material Control Account	25,000	Cr: Creditors	25,000
Dr: Material Control Account	2,200	Cr: WIP	2,200
Dr: Creditors	3,800	Cr: Material Control Account	3,800
Dr: Income Statement	1,500	Cr: Material Control Account	1,500

**Q.1. Material Inventory Account (0.5 mark for each value in account)**

04

**(b)**

Opening balance	5,000	Work in Progress	13,500
Creditors	25,000	Production overheads	1,800
Material returned from Production	2,200	Material returned to Suppliers	3,800
-	-	Income statement	1,500
		Closing balance	11,600
	<u>32,200</u>		<u>32,200</u>

**Total Marks 10**

**Q.2. Absorption Costing ( 1 mark per calculation)**

08

**(a)**

Sales :	4,800 X 20	96,000
Less : Cost of Sale :		
O/S	0	
+ Production (8X4,800)	38,400	
- C/S	-	(38,400)
Unadjusted Gross Profit		<u>57,600</u>
Under / Over Absorption (w)		<u>(400)</u>
Adjusted Gross Profit		57,200
Less: Variable Admin Cost		
96000 x 5%		(4,800)
Fixed Admin Cost		<u>(300)</u>
Profit		<u>52,100</u>

(Wi) 4,800 x 2 =	9,600 (Absorbed)
Actual overhead =	<u>10,000</u>
Under absorbed	400

**Summer Exam-2019**  
**Solutions – Cost Accounting**

**Q.2.**  
**(b)**

**Marginal Costing ( 1 mark per calculation)**

08

Sales	4,800 X 20	96,000
Less : Cost of Sales :		
O/S	0	
Production	4,800 X 6	(28,800)
C/S	0	
Gross contribution		67,200
Less : Variable Selling O/H =		
96000 X 5 %		(4,800)
Contribution		62,400
Less : Fix Production overhead		(10,000)
Fix non Production overhead		(300)
Profit		52,100

**Q.2. 2 marks per valid point**

04

**(c)**

The profits will be same for both methods and there is no movement in stock.

So closing stock in absorption costing did not defer any cost to be charged against sales.

**Total Marks 20**

**Q.3. (2 marks per variance calculation)**

14

**(a)**

1. Material price variance =  $(5 \times 5000\text{kg}) - 22700 = 2300 \text{ fav}$
2. Material usage variance =  $\{(4\text{kg} \times 1300) - 5000\text{kg}\} \times 5 = 1000 \text{ fav}$
3. Labour rate variance =  $(2850 \times 8) - 21500 = 1300 \text{ fav}$
4. Labour efficiency variance =  $\{(2 \times 1300) - 2850\} \times 8 = 2000 \text{ adv}$
5. Variable overhead expenditure variance =  $(2850 \times 3.5) - 7800 = 2175 \text{ fav}$
6. Variable overhead efficiency variance =  $\{(2 \times 1300) - 2850\} \times 3.5 = 875 \text{ adv}$
7.  $(1000 - 1300) \times 14 = 4200 \text{ fav}$

**Q.3.**  
**(b)**

1. Direct material price variance represents the difference between the standard cost and actual cost for the material purchased or used
2. Direct material usage variance is the difference between the standard quantity of materials that should have been used for the number of units actually produced, and the actual quantity of materials used, valued at the standard cost per unit of material.
3. Direct labour rate variance is the difference between the standard cost and the actual cost paid for the actual number of hours worked.
4. Direct labour efficiency variance is the difference between the standard labour hour that should have been worked for the actual number of units produced and the actual number of hours worked when the labour hours are valued at the standard rate.
5. Variable overhead expenditure variance is the difference between amount of variable production overhead that should have been incurred in actual hours worked and the amount of variable production overhead actually incurred.
6. Variable overhead efficiency variance is very much similar to labour efficiency variance. It is the difference between the standard labour hour that should have been worked for the actual number of units produced and the actual number of hours worked when the labour hours are valued at the standard variable production overhead rate.
7. Fixed overhead volume variance: Fixed overhead volume variance arises due to difference between actual and budgeted activity level. To compute the volume variance difference between actual and budgeted activity level is multiplied by budgeted absorption rate per unit.

07

## Summer Exam-2019

### Solutions – Cost Accounting

**Q.3. (one mark per reasonable explanation of reason of variances)**

04

(c)

Variance	Favorable	Adverse
Material Price	<ul style="list-style-type: none"> <li>▪ Unforeseen discounts received</li> <li>▪ Greater care in purchasing</li> <li>▪ Change in material standard</li> </ul>	<ul style="list-style-type: none"> <li>▪ Price increase</li> <li>▪ Careless purchasing</li> <li>▪ Change in material standard</li> </ul>
Material Usage	<ul style="list-style-type: none"> <li>▪ Material used of higher quality than standard</li> <li>▪ More efficient use of material</li> <li>▪ Errors in allocating material to jobs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Defective material</li> <li>▪ Excessive waste or theft</li> <li>▪ Stricter quality control</li> <li>▪ Errors in allocating material to jobs</li> </ul>
Labour Rate	<ul style="list-style-type: none"> <li>▪ Use of workers at a rate of pay lower than standard</li> </ul>	<ul style="list-style-type: none"> <li>▪ Wage rate increase</li> </ul>
Labour Efficiency	<ul style="list-style-type: none"> <li>▪ Output produced more quickly than expected because of worker motivation, better quality materials etc</li> <li>▪ Errors in allocating time to jobs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lost time in excess of standard</li> <li>▪ Output lower than standard set because of lack of training, substandard materials etc</li> <li>▪ Errors in allocating time to jobs</li> </ul>

**Total Marks 25**

**Q.4. (1 mark per calculation)**

05

(a) Blanket rate =  $\frac{\text{Total overheads}}{\text{Total machine hours}} = \frac{\text{Rs.425,000}}{125,000} = \text{Rs. 3.40 per machine hour}$

	T20	P66
	Rs.	Rs.
Prime cost	45	80
<b>Fixed overheads:</b>		
(45 x Rs3.40)	153	
(10 x Rs3.40)		34
Total cost	198	114

**Q.4. (1 mark per calculation)**

05

(b) Department A OAR =  $\frac{\text{Rs.250,000}}{100,000} = \text{Rs.2.50 per machine hour}$

Department B OAR =  $\frac{\text{Rs.175,000}}{25,000} = \text{Rs.7 per machine hour}$

	T20	P66
	Rs.	Rs.
Prime cost	45	80
<b>Fixed overheads:</b>		
Department A	62.5	25
Department B	140	
Total cost	247.5	105

**Q.4.** Actual cost

Rs. 108,875

1 mark

05

(c) Absorbed cost (30,000 × 3.50)

Rs. 105,000

2 marks

Under absorption

Rs. 3,875

2 marks

**Total Marks 15**

## Summer Exam-2019

### Solutions – Cost Accounting

**Q.5.** As First in first out (FIFO) means that first units completed would be units of opening inventory.

25

**(a)**

Opening inventory completion stage	50%
Work done in June	50%
Output at the end of June	1,800 units
Less opening inventory completed	<u>1,000</u> units
Work started and completed in June	800 units

These 1,800 units completed during June need to be distinguished between what were opening inventory items and what were started and completed during the month of June. The total cost of output from the process during June is as follows:

Opening inventory cost

Plus costs incurred during June to complete opening stock

Plus cost of remaining fully completed units

#### Statement of equivalent units (10 marks)

	Total Units	Completion	Equivalent Units
Opening units completed	1,000	50%	500
Fully worked units	800	100%	800
<b>Output</b>	<b>1,800</b>		<b>1,300</b>
Closing stock	200	75%	150
<b>Total</b>	<b>2,000</b>		<b>1,450</b>

#### Calculation of costs (10 marks)

$$\text{Cost per equivalent unit} = \frac{\text{Costs incurred in June}}{\text{Equivalent units}} = \frac{\text{Rs.18,995}}{1,450} = \text{Rs.13.10}$$

	Equivalent Units	Cost (Rs)
Opening Inventory Completed	500	6,550
Fully worked units	800	10,480
Closing stock	150	1,965
<b>Total</b>	<b>1,450</b>	<b>18,995</b>

Now the Total Cost Incurred on Opening Inventory can be determined.

=Opening Cost Brought Forward + Cost Incurred in June

$$= \text{Rs.5,000} + \text{Rs.6,550} = \text{Rs.11,550}$$

	Units	Rs.		Units	Rs.
			Output:		
Opening inventory	1,000	<b>5,000</b>	Opening inventory	1,000	11,550
Added material	1,000	10,000	Fully worked units	<u>800</u>	<u>10,480</u>
Labour	-	5,000		1,800	22,030
Overheads	-	3,995	Closing WIP	200	1,965
	<u>2,000</u>	<u>23,995</u>		<u>2,000</u>	<u>23,995</u>



**Summer Exam-2019**  
**Solutions – Cost Accounting**

- Q.5.** 2 marks to explain joint and by product  
**(b)** 1 mark each for treatment=2 marks  
1 mark for example

05

Joint products are two or more products which are separated in a process, each of joints products have a significant value. The characteristic of joint product is that they are output of same product and are indistinguishable up to their point of separation.

The most common example of joint product is crude oil; on processing of crude oil joint products of oil, diesel, kerosene oil, lubricants and many more products are obtained.

As joint product is sold for significant value therefore they are separately costed.

A by-product is a secondary or incidental product deriving from a manufacturing process, a chemical reaction or a biochemical pathway, and is not the primary product or service being produced. A by-product can be sold for an-insignificant amount and therefore they are not separately accounted for, for costing purposes.

**Total Marks 30**

\*\*\*\*\*

# **Financial Accounting**

**(Level-3)**

## Summer Exam-2019

### Solutions – Financial Accounting

**Q.1. The reasons for lower net realizable value are as follows:**

1. Goods are now obsolete. With newer products in the market offered at competitive rates, entity is unable to make sales or at least at profitable rate.
2. Goods are damaged. Though price is good, but the cost to repair the goods renders recoverable or realizable amount lesser than the cost itself.
3. Seasonal effects can alter prices significantly, though can be temporary.
4. Wrong sales strategy of entity may cause oversaturation of goods in the market. This can cause prices to plummet below original cost. Entity has to maintain appropriate levels of supply against demand.
5. If entity is minting profits, sooner or later competitors in the market will jump in as well offering similar products and it may be the case that they start offering products with same utility at prices lower than the production cost of entity.
6. Production cost has increased. May be because of increase in raw material cost or other direct expenses such as royalty that is paid in foreign currency and exchange rate has fluctuated unfavorably for entity.
7. It might be possible that entity can produce units at lower cost but has to spend a lot of carriage cost to move inventory to market before it can be sold.

(Answers can vary as appropriate)

**Total Marks 04**

**Q.2.  
(a)**

Partners' Capital Account							
	Cheema	Asghar	Badar		Cheema	Asghar	Badar
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Goodwill (3)	10,000	5,000	5,000	Balance b/d (1.5)	64,000	96,000	45,000
				Adjustment (3) *	4,800	3,200	
Balance c/d (1.5)	<u>66,000</u>	<u>99,000</u>	<u>48,000</u>	Goodwill (3)	<u>7,200</u>	<u>4,800</u>	<u>8,000</u>
	<u>76,000</u>	<u>104,000</u>	<u>53,000</u>		<u>76,000</u>	<u>104,000</u>	<u>53,000</u>
				Bal b/d	66,000	99,000	48,000

08

**Q.2.  
(b)**

	Cheema	Asghar	Badar
	Rs.	Rs.	Rs.
Balances on capital accounts at 1/7/12(1)	66,000	99,000	48,000
Profit for the year to 30/6/13(3)	160,000	80,000	80,000
Drawings(3)	<u>(138,000)</u>	<u>(47,000)</u>	<u>(68,000)</u>
<b>Balances at 30/6/13(1)</b>	<b><u>88,000</u></b>	<b><u>132,000</u></b>	<b><u>60,000</u></b>

12

**Total Marks 20**

**Q.3.  
(a)**

Cost of Sales (FIFO)		
Units	@	(Rs) Amount
60	105	6,300 (1.5)
30	115	3,450 (1.5)
<u>55</u>	<u>125</u>	<u>6,875(1.5)</u>
<u>145</u>		<b><u>Rs. 16,625(0.5)</u></b>

05

**Summer Exam-2019**  
**Solutions – Financial Accounting**

*Adjustment (Bank)	
Increase in land & building	20,000
Decrease in plat & equipment	(7,000)
Decrease in current Asst	(5,000)
Net increase to be allocated btw cheema & Asghar in the ratio of 60%: 40%	<u>8,000</u>

**Q.3.**  
**(b)**

Cost of Year- End Inventory		
Units	@	(RS) Amount
35	125	4,375 (1.5)
<u>20</u>	135	<u>2,700(1.5)</u>
<u>55</u>		<u>Rs. 7,075(1)</u>

04

**Total Marks 09**

**Q.4.** The changes required for compliance are not considered to be a distinct performance obligation. The contractor measures performance based on costs incurred.

The modification will be accounted for as part of the existing contract and a cumulative catch-up adjustment will be required to revenue as follows:

Zara Ltd	Original	Modified	Adjustment Required
Contract Value (2) (C)	25,000,000	30,000,000	-
Costs incurred to date (2) (A x B)	9,000,000	9,000,000	-
Total expected cost (2) A	20,000,000	24,500,000	-
% estimate completed (1) B	45%	37%	-
Gross Margin % (1) (C- B) /C	20%	18%	-
Revenue recognized (2)	11,250,000	11,020,408	(229,592)

**Total Marks 10**

**Q.5.** Cash from Operations = Rs.50 lakhs (1) – Rs.35 lakhs (1.5) + Rs.6 lakhs (1.5) = Rs.21 lakhs (1)

**Total Marks 05**

**Q.6.**

	Rs.
Cost of Machine	80,000(2)
Installation	5,000(2)
Testing	1,000(2)
	<u>86,000</u>

All costs necessarily incurred to bring the non-current asset into use must be capitalized.

**Total Marks 08**

**Q.7.**

	Rs.
Cost	900,000 (0.5)
Accumulated Depreciation	<u>(108,000) (0.5)</u>
Net Book Value	792,000 (1)
Revalued to	1,600,000(1)
Surplus on Revaluation	<u>808,000(1)</u>

**Total Marks 04**

**Summer Exam-2019**  
**Solutions – Financial Accounting**

**Q.8.**  
**(a)**

	Rs.	Rs.
Revenue (1)		563,800
Less: Cost of sales:		
Opening inventory (1)	62,400	
Purchases (1)	<u>268,200</u>	
	330,600	
Closing inventory (1)	(70,300)	<u>(260,300)</u>
Gross Profit (1)		303,500
Less: Expenses		
Directors remuneration (1)	53,200	
Office costs (1)	41,070	
Property costs (1)	22,000	
Selling and distribution costs (1)	<u>73,500</u>	<u>(189,770)</u>
Profit from operations (1)		113,730
Finance costs (1)		<u>(5,920)</u>
<b>Profit for the year (1)</b>		<b><u>107,810</u></b>

20

**Workings:**

1. Office costs: Rs.18,330 + Rs.1,920 + Rs.19,400 + Rs.1,420 = Rs.41,070(2)
2. Property costs: Rs.21,940 + Rs.1,300 – Rs.1,240 = Rs.22,000(2)
3. Selling and distribution costs: Rs.36,120 + Rs.5,600 + Rs.29,100 + Rs.2,680 = Rs.73,500(2)
4. Depreciation:(2)      Buildings 65,000 x 2% = 1,300  
                                     Fixtures and Fittings (18,110 – 5310) x 15% = 1,920  
                                     Motor Vehicles (41,600 – 19,200) x 25% = 5,600

**Q.8.**  
**(b)**

- Ordinary shares carry voting rights while preference shares do not carry voting rights.
- Ordinary shareholders receive a variable dividend while preference shareholders receive a fixed rate of dividend.
- Ordinary share dividends are discretionary while preference share dividend is mandatory if sufficient profits are available.
- Preference shareholders receive dividend before ordinary shareholders.

04

**(Answers can vary as appropriate)**

**Q.8.**  
**(c)**

Current assets:	Rs.
Inventory (1)	70,300
Trade and other receivables (1)	70,820
Cash and cash equivalents (1)	<u>10,210</u>
<b>Total Current Assets (1)</b>	<b><u>151,330</u></b>

06

Trade and other receivables = 71,000 – 1,420 + 1,240 = 70,820 (1)

Cash and cash equivalents = 14,040 + 26,400 – 50,000 - 650 = 10,210 (1)

**Total Marks      30**

**Summer Exam-2019**  
**Solutions – Financial Accounting**

Q.9.

Branch Account			
Particulars	Rs.	Particulars	Rs.
Opening stock at the branch (1)	15,000	Sales (2)	60,000
Goods sent to branch (1)	45,000	Closing Stock (1)	10,000*
Salaries (1)	5,000	-	-
Other Expenses (1)	2,000	-	-
Manger's Commission (2)	150	-	-
Profit and Loss A/c (1)	<u>2,850</u>	-	-
	<u>70,000</u>		<u>70,000</u>

Opening Balance + Purchase – Cost of Sale = Closing Stock

$$15,000+45,000-[60,000-10,000]=10,000$$

**Total Marks      10**

\*\*\*\*\*

# **Business Commn. & Report Writing**

**(Level-3)**



**Summer Exam-2019**  
**Solutions – Bus. Commn. & Report Writing**

**Q.1.** The given answer is detailed. The examinee may mention any 5 of the given developments, (a) with little elaboration, enough to grab 5 marks.

1. Increased bandwidth – the amount of information that can be communicated at any one time continues to grow rapidly.
2. Sophistication and versatility of technologies – multiuse technologies are becoming main-stream in many markets. Examples include tablet computers that can be used as telephones, smart phones with built-in cameras that can be used for video-conferencing and hands-free communications available in most vehicles.
3. New business models – for example:
  - Off-shoring helpdesks - the improvement in technological capability combined with reduced cost of telecommunications and local labor costs has seen a trend in traditional home-country based telephone help-desks being moved offshore to east European and central Asian locations.
  - Growth of automated call-answering. A number of menu and sub-menu options are offered which are then accessed through the telephone keypad. As a last resort the caller is connected to a live person.
  - It saves costs and filters high volume of callers so that firms can focus on providing real help efficiently to those who genuinely need it.
4. E-commerce – Developments in ICT including speed, bandwidth, security and accessibility have meant that the world is genuinely becoming a global market-place which changes the way the businesses compete.

**Total Marks 05**

**Q.2.** Factors for the choice of communication networks in organizations: 02

- a
1. Nature of the group's tasks
  2. Extent to which group members need to communicate with each other to achieve group goals.

**Q.2.** The functions of communication networks include: 04

- b
1. Providing the means for organizing the activities of individuals, groups and other sub-units within the organisation.
  2. Providing instruments for directing the activities of the organisation as a whole.
  3. Facilitating the exchange of information within the organisation, and
  4. Ensuring the flow of information between the organisation and the external environment in which it exists.

**Total Marks 06**

**Q.3.** (The examinee may write any 5 of the following traits)

1. They retain an open mind avoiding bias and judgment.
2. They try to avoid distractions and are aware that attention is typically greatest at the start and end of discussions.
3. They are interested and make an effort.
4. They have radar for picking up the main ideas by distinguishing between supporting evidence and the key issue.

**Contd.....**





**Summer Exam-2019**  
**Solutions – Bus. Commn. & Report Writing**

5. They wait before interruption.
6. They do critical listening – i.e. to assess what the other person is saying by identifying potential bias, omissions and assumptions.
7. They are prepared to listen and have made an active decision to focus on grasping the main concepts.
8. They often take notes.

**Total Marks 05**

**Q.4. Argument** – this involves the resolution of differences through discussion; for example deciding which new product to launch first.

**Competition** – this represents rival pursuit of a common prize, for example when two managers are fighting to win budget for new investments.

**Conflict** – this is the behaviour that occurs between groups when participants of one group perceive that other groups may block their goal i.e. a harmful expression of difference. An example could be trade union action in response to management plans to cut costs.

**Total Marks 06**

**Q.5.**

Column A	Column B	Column C
1. Invoice	Statement of payment	Clarity
2. Slightly improved	20% improvement	Concreteness
3. We are delighted to announce	You will be happy to learn...	Consideration
4. In due course	Soon	Conciseness
5. e.g.	For example	Clarity
6. Double-cheque totals	Double-check totals	Correctness

**Total Marks 05**

**Q.6.** (The examinee may write any 4 points from each segment)

**(a)**

**Advantages:**

1. It offers high level of understanding and transparency.
2. It offers spontaneous feedback and helps making quick decisions.
3. It is not only convenient and time saving but saves money and extra efforts as well.
4. For conflict resolution, it is best to have them spoken and put to an end by talking them over.
5. Team work necessitates oral communication.
6. It encourages employees' morale.
7. It can be used as the best tool to communicate private and confidential matters.

**Disadvantages:**

1. It is spontaneous and can be erroneous.
2. In case of meetings, long speeches consume lot of time and remain unproductive mostly.
3. It calls for attentive and receptive listeners with sound observations skills otherwise messages can either go unheard or misunderstood.
4. Oral communication is not very much appreciated as a legal record.
5. Lack of audit trail
6. Tend to be more informal in nature.

**Total Marks 08**

Contd.....



**Summer Exam-2019**  
**Solutions – Bus. Commn. & Report Writing**

- Q.7. To Learn:** 03  
a Interpersonal communication enables us to learn and to better understand the world around us. In fact, it is believed that our principles, attitudes, and morals are influenced more by interpersonal experiences than by formal, conventional education. Interpersonal communication also lets us learn about ourselves—our strengths and our weaknesses.
- Q.7. To Inspire:** 03  
b During our interpersonal connections we may inspire others; e.g. to choose a certain career, to behave in a certain way, to try a new restaurant, to argue to let someone believe if something is true or otherwise.
- Q.7. To Support:** 03  
c Psychiatrists serve humanity professionally by offering help through interpersonal interactions. But we all interact every day to help our connections in one way or another. Examples include, consoling and comforting a friend who has just lost his father, counseling a student about career prospects or offering advice to a co-worker.

**Total Marks 09**

**Q.8.** The minute-taker is the person responsible for recording the minutes.

His responsibilities include:

1. Recording attendance – noting down the names of those who are attending the meeting
2. Writing notes during the meeting – writing points that would be helpful in composing minutes.
3. Writing minutes as soon as possible after the meeting
4. Getting the minutes approved or reviewed by any competent authority or a senior colleague prior to circulating them.
5. Circulating the minutes

**Total Marks 05**

**Q.9.** The answers may vary. The suggested answer is given below.

Sender's name  
Sender's address  
Date

Name, Designation (of receiver)  
Address

Salutation,

Subject (optional)

Body

- State the situation referring to order, date, due date and reference number of order.
- Describe your problem
- Ask for a response within a reasonable time or the outcome you want
- 

Complimentary close,  
Signature  
Name

**Total Marks 12**  
**Contd.....**



**Summer Exam-2019**  
**Solutions – Bus. Commn. & Report Writing**

**Q.10.** (The given answer is much detailed. The examinee may mention any part of the given information to score 4 marks.) 04  
**a**

**Blogs are a type of website. The only real difference between a blog and other types of website is that blogs are regularly updated with new content displayed in a reversed chronological order (newer posts first).**

**Typical websites are static in nature where content is organized in pages, and they are not updated frequently; whereas a blog is dynamic, and it is usually updated more frequently. Some bloggers publish multiple new articles a day.**

Blogs can be a part of the larger website. Often businesses have a blog section where they regularly create content to inform and educate their customers. We can use Word Press to create a website and blog.

The term blog has been derived from the words web log. Web logs or blogs are web based journals. A blog is a type of website where the content is presented in a reverse chronological order (newer content appear first). Blog content are often referred to as entries or “blog posts”. Blogs are typically run by an individual or a small group of people to present information in a conversational style.

It is defined as the act of posting content on a blog (a weblog or online journal) or posting comments on someone else’s blog. Since 1999 blogging has become a phenomenon amongst web users for personal and business activities. It is widely used by individuals or groups to maintain a record of opinions, pictures and interests. It refers to a website usually maintained by an individual with regular entries of observations, account of events, or any other material may be graphics or videos for instance. Entries are normally shown in reverse-chronological order. Blogging is one of the most sought after activities on the web.

Weblog functionality is typically more limited than the standard Web hosting described above and hence conversely less expensive. Customers are however limited to building a Web site with the blog software which for most organisations will be too commercially limiting.

A website is identified by its domain name, such as sony.com, which is linked to an IP address pointing to a specific physical computer.

**Q.10. Blogging:** The act of writing a post for a blog 03

**b Blogger:** A person who writes content for a blog

**Blogosphere:** The online community of blogs and bloggers

**Q.10.** (Any 5 of the given limitations may be written to score 5 marks) 05

**c**

Common limitations of email include:

1. Can be an inefficient way of reaching a decision where a telephone call or meeting might better facilitate the immediate exchange of views and reaching a consensus.
2. Can be seen as an insensitive way of sharing bad-news and personal messages when a ‘human touch’ would be more appropriate.
3. Poorly constructed messages might be misinterpreted by the recipient.
4. An absence of non-verbal communication such as body language can also lead to misinterpretation of an email.
5. Electronic signatures may not be legally binding in some jurisdictions.



**Summer Exam-2019**  
**Solutions – Bus. Commn. & Report Writing**

6. Email overload! Given how easy it is to include multiple recipients on emails there can be a tendency to include non-relevant recipients in emails. This generates work for each non-relevant recipient to open the message, digest the contents, conclude that it is not relevant to them, then either delete or file the message.
7. Spam! A variation on the previous point – this is where companies typically advertising their products repeatedly send unwanted advertisement emails that flood a user's inbox.
8. Emails may carry viruses which spread rapidly!

**Total Marks 12**

**Q.11. (i) Performance Appraisal Report:** Documents the quality of an employee's work performance for a particular period with identification of the individual's strengths and weaknesses, training and development needs and career planning. Some appraisal reports may include recommendations of salary increments/promotions although the two themes can be kept separate. 09

a

**(ii) Feasibility Report:** A feasibility report examines the viability of the proposed undertaking from its technical, commercial and economic standpoints. A feasibility report presents the benefits that the proposal or idea will yield with details of its initial capital costs, implementation schedule, recurring operating costs and returns over the useful life of the undertaking.

**(iii) Operating Report:** An operations report summarizes the operational activity for a particular time period. The report might include information on sales and purchases, employee information and inventory. Operating reports are used by management to obtain a quick summary of how the company is performing. For example management of an airline might be interested about revenues and employee numbers but also flight statistics, occupancy rates and punctuality. Management use operating reports to identify areas that are performing well and areas that need improvement.

**Q.11. (The required answer may be shorter than the one given below)**

06

b

**(i) Executive Summary:** An executive summary summarizes a longer report or proposal or a group of related reports in such a way that readers can rapidly become acquainted with a large body of material without having to read it all. The benefit of including an executive summary is that for senior people with little time it is the one section they will read. Therefore a succinct, clear and well written executive summary should always reach the reader.

The executive summary should include: What the report is about; what the problems are the conclusions you arrived at.

A good executive summary gives the overall picture without including too much detail. (One useful by-product of writing the executive summary is that by going through the writing process you will be able to check that the report itself is logical.)

**(ii) Appendices:** The appendices generally include detailed information that the reader can essentially do without in order to make sense of the main body of the report. For example: calculations, examples, questionnaires and CVs. They are effectively the bottom level of the logical pyramids you constructed during the structuring phase.

Contd.....



**Summer Exam-2019**  
**Solutions – Bus. Commn. & Report Writing**

In summary, appendices should be:

- Included only if absolutely necessary.
- Non-essential for understanding the main arguments.
- Referred to somewhere in the body of the text i.e. there must be a link.
- Mentioned as the final item in the table of contents.

Most business plans would include the following two appendices:

- Detailed financial information – more detail than in the financial plan in the main body.
- CVs of key management – certainly board members but also include for other key management personnel.

**Total Marks 15**

- Q.12.**
- (i) The précis must be of 105-110 words.
  - (ii) The idea should be conveyed very precisely.
  - (iii) Copying sentences or phrases from the passage is not acceptable; the answer should be original and written in own words.
  - (iv) It should reflect the Intelligence of the Précis-writer.
  - (v) The précis must be written in one paragraph only.
  - (vi) Inclusion of Statistical Information is required.
  - (vii) The précis must correspond with the balance Proportion of ideas and information in the passage.

**Total Marks 12**

\*\*\*\*\*

# **Financial Reporting**

**(Level-4)**



## Summer Exam-2019 Solutions – Financial Reporting

**Q.1.** Deferred tax asset/liability are the amount of income taxes recoverable / payable in future periods in respect of temporary differences. Whereas, the temporary differences arise as a result of differences between the carrying value and tax base of the assets/liabilities. It is important to note that the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

- a) Under IAS 16 assets may be revalued but taxation authorities do not adjust the tax bases, consequently taxable temporary differences arise which give rise deferred tax liability. The calculation is as under:

**Deferred tax to be recognized**

	Rs. (m)	Rs. (m)
Opening deferred tax –Asset	(2x30%)	(0.600)
Deferred tax charged to other comprehensive income	(10.5x30%)	3.150
Deferred tax on account of incremental depreciation	(3.1-1.75)	(0.405)
Closing deferred tax -liability	(7.15x30%)	2.145

**W-1 Calculation of deferred tax**

Particulars	Carrying value	Tax base	Taxable temporary differences	Deductible temporary differences
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
Opening deferred tax				
PPE	5.0	7.0	-	2
Closing deferred tax				
PPE	12.4	5.25	7.15	--
CV=5+10.5-15.5/5)=12.4				
TB=7-(7x25%)=5.25				

- b) The development cost recognized as an asset has been claimed as an expense under tax laws will give rise to taxable temporary differences which result into deferred tax liability. The calculation is as under:

**W-1 Calculation of deferred tax**

Particulars	Carrying value	Tax base	Taxable temporary differences	Deductible temporary differences
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
Development cost	2.50	--	2.50	
Deferred tax liability Rs. 2.5x30%=0.75				

- c) The research cost has been expensed out during the year but will be available as an expense against taxable profits of future years, therefore, will give rise to deductible temporary differences and deferred tax asset/income of Rs. 0.24 million (0.8x30%) will be recognized in the financial statements.

Investments are carried under IFRS 9 at fair value but tax will be charged on realized gain at the time of sale of investments, therefore, the fair value gain/loss give to taxable/deductible temporary difference. The deferred tax liability/expense of Rs. 0.05 million [(2.5-2.3)x25%] will be recognized in the financial statements.



## Summer Exam-2019 Solutions – Financial Reporting

Q.2.

### Statement of Financial Position

	Rs. (000)	Rs. (000)
<b>Assets</b>		
Non-current assets		
Right to use asset (1,100 – 110)		990
<b>Liabilities</b>		
Non-current		
Lease liability	497	
Provision for restoration	50	
Current		
Lease liability	36	

### Statement of Comprehensive Income

	Rs. (000)	Rs. (000)
<b>Profit or loss account</b>		
<b>Expenses</b>		
Depreciation expense	110	
Interest on provision for restoration (unwinding)	5	
Interest on lease	68	
Contingent rent (5 x 5)	25	208

### Workings

#### W – 1

Lease repayment schedule

Year	Opening Rs. (000)	Interest Rs. (000)	Principal Rs. (000)	Payment Rs. (000)	Closing Rs. (000)
1	565	68	32	100	533
2	533	64	36	100	497

#### W – 2

Cost of Right to use asset	$=25+565+450+45+40=1,100$
PV of lease payments	$=AF \times 100 = 5.65 \times 100 = 565$
Lease hold improvements	$=450$
PV of provision for restoration	$=DF \times 140 = 0.322 \times 140 = 45$
Advance payment	$=40$

#### W – 3

Provision for restructuring

Year	Opening Rs. (000)	Interest Rs. (000)	Payment Rs. (000)	Closing Rs. (000)
1	45	5	--	50
2	50	6	--	56

#### W – 4

Depreciation  
 $1,100/10=110$





## Summer Exam-2019 Solutions – Financial Reporting

- Q.3.**
- The entity should book a contract liability of Rs. (1.5x80%) 1.2 million and reduce the current year revenue by the same amount as the performance obligation relating to these points have not been fulfilled yet.
  - The entity should book an expense and provision of Rs. 5 million and record income of Rs. 5 million and claim receivable from supplier of Rs. 5 million. The income and expense can be offset in the income statements but claim receivable and provision will be presented in balance sheet on asset side and liability side respectively. The value of claim receivable cannot exceed the amount of provision.
  - This fact is only to be disclosed in the financial statements being non-adjusting event.
  - The raw material will not be written down below its cost as still the finished goods are worth more than their cost.

**Total Marks 14**

**Q.4.** **Faisal Limited | Consolidated Statement of Financial Position  
As at December 31, 2018**

	Rs. (000)	Rs. (000)
<b>Assets</b>		
Non-current assets (36,020+600-290-75-3,000-3,000)		30,255
Current asset		16,080
		46,335
<b>Equity and liabilities</b>		
Ordinary share capital	10,000	
Consolidated reserves	10,320	20,320
		3,180
Non-controlling interest		23,500
Non-current liabilities (14,400-3,000)		11,400
Current liabilities (11,435)		11,435
		46,335

**Faisal Limited | Consolidated Statement of Comprehensive Income  
For the year ended December 31, 2018**

	FL Rs. (000)	SL Rs. (000)	Adjustments Rs. (000)	Consolidated Rs. (000)
Operating profit	8,260	2,320	(395)	10,185
Finance cost	(1,200)	(600)	300	(1,500)
Dividend income	600	--	(600)	--
Profit before tax	7,660	1,720	(695)	8,685
Tax expense	(2,260)	(520)	--	(2,780)
Profit after tax	5,400	1,200		5,905
Non-controlling interest				432
Profit attr. to owners of parent				5,473

**Workings**

<b>W – 1 Goodwill</b>	Rs. (000)	Rs. (000)
Cost of investment	3,000	
Share capital		3,000
Pre reserves (1,675x0.6)		1,005
Bargain purchase gain	1,005	
	4,005	4,005



**Summer Exam-2019**  
**Solutions – Financial Reporting**

<b>W – 2 Non-controlling interest</b>		
Share capital		2,000
Pre reserve (1,675x0.4)		670
Post reserves (1,195x0.4)		478
Dividend (1,000x0.4)		(400)
Profit for the year		432
		3,180
<b>W – 3 Subsidiary reserves</b>	<b>Pre</b>	<b>Post</b>
Balance B/F (2,740-1,200)	1,200	340
FV adjustment on assets (500+100)	600	--
Extra amortization (500/4) & (100/5)		(145)
Contingent liability	(125)	
Dividend	--	1,000
	1,675	1,195
<b>W – 4 Consolidated reserves</b>		
Balance B/F (8,525-5,400)		3,125
Bargain purchase gain		1,005
Post reserves (1,195+0.6)		717
Profit for the year		5,473
		10,320
<b>W – 5 Journal entries</b>		
Operating profit	145	
Intangible asset & PPE		145
Pre reserves	125	
Operating profit		125
Sales /operating profit	600	
Cost of sales / operating profit		500
PPE		100
PPE (100/4)	25	
Cost of sales /operating profit		25
Profit or loss account	600	
NCI	400	
Dividend		1,000
Operating profit	300	
Interest expense		300
Non-current liabilities (6,000x50%)	3,000	
Non-current assets		3,000
<b>W – 6 Share of profit of NCI</b>	<b>Debit</b>	<b>Credit</b>
Profit for the year		1,200
Effect of:		
Extra depreciation and amortization	145	
Gain on sale of asset	100	
Contingent liability		125
	245	1,325
Net		1,080
NCI @ 40%		432

**Total Marks      25**



## Summer Exam-2019 Solutions – Financial Reporting

- Q.5.** a) IAS 38 (Intangible Assets) requires that the cost associated to development phase should be reliably measureable and if the entity cannot make a difference between research phase and development phase whole of the cost should be expensed out to profit or loss account.
- b) The provision for decommissioning and site restoration should have been recognized at the start of current year at Rs. 7.71 million  $[(1/1.10)^{-10} \times 20]$  and unwinding interest Rs. 0.77 million  $(7.71 \times 10\%)$  should have been charged to profit or loss account of current year and provision should have been increase to Rs. at Rs. 8.48 million. The depreciation charge of fixed assets should have been increased by the impact of increase in cost of asset at start of the year by Rs. 7.71 million which will be 0.77 million  $(7.71/10)$ .
- c) The IAS 10 (Events after the reporting date) requires that if some events after the reporting date confirms the information existing on the reporting date that should be updated in the financial statements. Therefore, the disclosure of contingent liability should be removed from the financial statements.
- d) As the revision to loan agreement has been signed after the reporting date and the entity has no unconditional right to delay the payment of loan by more than one year from the reporting date therefore, the loan should be classified in the current liabilities and not in the noncurrent liabilities.
- e) The disclosure under IFRS 8 (Operating segments) are required for those which satisfies the criteria of reportable segment on the current reporting date therefore, disclosure operating segment in comparative year should be removed and disclosure of operating segment eligible in current year should be made also in the comparative year.

20

**Total Marks 15**

**Q.6.**

Date	Particulars	Debit	Credit
		Rs. (m)	Rs. (m)
31-12-2017	Interest expense account	107.58	
	Bank account		100.00
	Loan account		7.58
31-12-2018	Interest expense account	108.43	
	Bank account		100.00
	Loan account		8.43

**Working 1 Repayment schedule**

Date	Opening balance	Interest expense @11.23%	Payment 10%	Closing balance
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
01-01-15	945.00	106.12	(100)	951.12
01-01-16	951.12	106.81	(100)	957.93
01-01-17	957.93	107.58	(100)	965.51
01-01-18	965.51	108.43	(100)	973.94
01-01-19	973.94	109.37	(100)	983.31
01-01-20	983.31	110.42	(100)	993.73

**Total Marks 11**

\*\*\*\*\*

# **Management Accounting**

**(Level-4)**



## Summer Exam-2019 Solutions – Management Accounting

Q.1.  
a

		<u>Rs.</u>	<u>Rs.</u>			<u>Rs.</u>	<u>Rs.</u>		
<b><u>Salary</u></b>					<b><u>Salary</u></b>				
Doctor	100,000	60	6,000,000	0.5	Doctor	105,000	60	6,300,000	0.5
Nurses	37,000	150	5,550,000	0.5	Nurses	34,500	150	5,175,000	0.5
			11,550,000					11,475,000	
<b><u>Variable cost</u></b>					<b><u>Variable cost</u></b>				
Other staff cost	72.00	20,000	1,440,000	1	Other staff cost			1,500,000	1
Catering	7.00	20,000	140,000	1	Catering			127,500	1
Cleaning	1.40	20,000	28,000	1	Cleaning			90,000	1
Other operating costs	18.00	20,000	360,000	1	Other operating costs			210,000	1
			1,968,000					1,927,500	0.5
<b><u>Fixed cost</u></b>									
Catering			60,000	0.5	Catering			60,000	0.5
Cleaning			52,000	0.5	Cleaning			52,000	0.5
Other operating costs			840,000	0.5	Other operating costs			840,000	0.5
Depreciation			80,000	0.5	Depreciation			80,000	
			1,032,000					1,032,000	
<b>Total</b>			<b>14,550,000</b>	0.5	<b>Total</b>			<b>14,434,500</b>	0.5

15



## Summer Exam-2019 Solutions – Management Accounting

**Q.1. b** Incremental budgeting is a type of budgeting that adds a certain amount of capital to a previous period's budget in order to allow for slight increases. This type of budget is simple, but it also is not generally recommended by most professionals. One of the biggest problems with this type of budgeting is that it often leads departments to spend more money. **02**

**Q.1. c** Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one. **03**

**Total Marks 20**

		Units	Price	Sales	
<b>Q.2. a</b>	Sales	20,000	25.00	500,000	1
	Variable cost	20,000	13.75	(275,000)	1
	Contribution		11.25	225,000	1
	Fixed			(135,000)	1
	<b>Profit</b>			<b>90,000</b>	<b>1</b>

<b>Q.2. b</b>	Breakeven=	$\frac{\text{Fixed cost Rs.}}{\text{Contribution margin per unit}}$	2
	Fixed	$\frac{135,000}{11.25}$	2
	Contribution Margin	$\frac{135,000}{11.25}$	1
		<b>12,000 Units</b>	

<b>Q.2. c</b>	Breakeven=	$\frac{\text{Fixed cost Rs.}}{\text{Contribution Margin Ratio}}$	2
	Fixed	$\frac{135,000}{0.45}$	2
	<b>Rs.</b>	<b>300,000</b>	1

<b>Q.2. d</b>	Breakeven=	$\frac{\text{Fixed cost} + 11,250}{\text{Contribution margin per unit}}$	3
	Fixed	$\frac{146,250}{0.45}$	3
	<b>Rs.</b>	<b>325,000</b>	1

<b>Q.2. e</b>	Profit minus Rs. 100,000	
	=Rs. 112,500 - Rs. 100,000	2
	<b>=Rs. 125,000</b>	<b>1</b>

**Total Marks 25**



## Summer Exam-2019 Solutions – Management Accounting

Q.3. a	Year	Cash Flow	Dis. Factor @ 16%	PV	03
	0	(80,700)	1	(80,700)	1
	1-8	30,000	4.34	130,200	2
				<u>49,500</u>	

Q.3. b	<u>=Initial Investment</u> Yearly cash inflow	02
	<u>80,700</u>	1
	<u>30,000</u>	
	<u><b>2.69</b></u> Years	1

Q.3. c	Year	Cash Flow	Dis. Factor @ 16%	PV	Balance Investment	03
	0	(80,700)	1	(80,700)	(80,700)	0.2
	1	30,000	0.86	25,862	(54,838)	0.2
	2	30,000	0.74	22,295	(32,543)	0.2
	3	30,000	0.64	19,220	<b>(13,323)</b>	0.2
	4	30,000	0.55	<b>16,569</b>	3,245	0.2
	5	30,000	0.48	14,283		0.2
	6	30,000	0.41	12,313		0.2
	7	30,000	0.35	10,615		0.2
	8	30,000	0.31	9,151		0.2
		=3+	<u>13,323</u>			0.7
			<u>16,569</u>			
			<u><b>3.80</b></u> years			0.5

Q.3. d	Year	Cash Flow	Dis. Factor @ 33%	PV	Dis. Factor @ 34%	PV	03
	0	(80,700)	1	(80,700)	1	(80,700)	0.5
	1-8	30,000	2.72	<u>81,600</u>	2.66	<u>79,800</u>	0.5
				<u>900</u>		<u>(900)</u>	
		<u>= 33% + 900 x 1</u>					1
		<u>900-(-900)</u>					
		<u><b>33.50%</b></u>					1



## Summer Exam-2019 Solutions – Management Accounting

**Q.3. e** **02**

Pv of cash in flows	1	
Pv of cash out flows		
130,200	0.5	
80,700		
<b>1.61</b>	0.5	

**Q.3. f** **02**

NPV	1	
Pv of cash out flows		
49,500	0.5	
80,700		
<b>0.61</b>	0.5	

**Total Marks 15**

**Q.4. a**

i

$=\sqrt{2} \times \text{Annual Requirement} \times \text{Ordering Cost}$		1
Carrying Cost %		
$= 2 \times 1800 * 100$		1
100		
60 Units		1

ii

$=\text{Days in a year}$		0.5
EOQ		
$=300$		0.5
60		
= 5 orders		
$=\text{Days in a year}$		0.5
No of orders		
$=300$		0.5
5		
= 60 days		

**Q.4. b**

**Liquidity Ratio**

Current assets		2
Current liabilities		

**Solvency Ratio**

Net after tax income + non cash expenses		3
Total Liabilities		

**Total Marks 10**





**Summer Exam-2019**  
**Solutions – Management Accounting**

<b>Q.5.</b>		<b>Apple</b>	<b>Mango</b>	
<b>a</b>	Sales price per unit	100	130	2
	Variable cost per unit	60	70	2
	Contribution Margin per unit	<u>40</u>	<u>60</u>	2
	Labor Hours per unit	1	2	2
	Contribution Margin per hour	<u>40</u>	<u>30</u>	2
	Ranking	1 <sup>st</sup>	2 <sup>nd</sup>	2
	<b>Production of Mango</b>		<b>5,000 units using 5,000 hours</b>	2
	Remaining hours for Apple 8,000-5,000	3,000 hours		3
	<b>Production of Apple</b>	<b>1,500 units</b>		2
		Apple	Mango	
	Contribution	90,000	200,000	290,000 2
	Less Fixed Costs			<u>200,000</u> 2
	<b>Profit</b>			<u><b>90,000</b></u> 2

- Q.5. Significance of constraints in decision making** **05**
- b** Element, factor, or subsystem that works as a bottleneck. It restricts an entity, project, or system (such as a manufacturing or decision making process) from achieving its potential (or higher level of output) with reference to its goal.

**Total Marks 30**

\*\*\*\*\*

# **Audit, Assurance & Ethics**

**(Level-4)**



## Summer Exam-2019

### Solutions – Audit, Assurance & Ethics

**Q.1** The process of developing an ISA is as follows: (1 Mark for each point Max = 4.5)

A subject is selected for detailed study, with a view to eventually issuing an ISA

After a period of study and research, if there is agreement to proceed, an **exposure draft** is produced.

The exposure draft is approved by the IAASB and then distributed widely amongst the profession and others for comment.

Comments and proposed amendments are considered by the IAASB. The draft standard is then modified and approved by the IAASB.

The new ISA is then published.

**Each ISA contains:** (0.5 per point)

- an introduction
- Objectives
- definitions (if necessary)
- requirements which are shown by the word “shall” and are to be applied as relevant to the audit
- Application and other explanatory material which is for guidance only.

**Total Marks 07**

**Q.2 Audit procedures on net realisable value of inventory (6 marks)**

- i)** Review the physical count attendance working papers for evidence of any old or unsalable items
- ii)** Review the inventory cards for items which have higher value, but booked into work in progress, or sold at lower amount.
- iii)** Compare the yearend inventory balances to those of last year to identify items that have been in inventory since the last year end.

Discuss any inventory lines found above with management and determine an acceptable valuation. Use may be made of the audit evidence noted below, although it is likely that some subjective judgment will be needed due to the older nature of these items.

Select a number of inventory lines from the client’s inventory listings and perform a net realizable value test as follows:

- i)** Trace the inventory line to post yearend sales invoices and ensure that the sales value, less costs of marketing, selling and distribution, exceeds the cost of the inventory recorded on the inventory sheets.
- ii)** For items where no post yearend sales invoices are available, agree to pre-yearend sales invoices and perform the same test. Review price lists issued post year end and ensure that the inventory lines have not fallen in price. Order books could also be reviewed to ensure that these inventory lines are still in demand.

For any inventory lines found where the net realizable value is less than cost, or where there is no apparent demand for the inventory line, discuss with management and agree amount of provision required

**Total Marks 06**  
Contd....



## **Summer Exam-2019**

### **Solutions – Audit, Assurance & Ethics**

If a large number of inventory lines fall into this category, consider extending sample size and agreeing with management a general provision against all inventories.

The auditor will have to agree a suitable provision with management based on his professional skill and judgment.

#### **Audit procedures to confirm the quantities of coal held by the company: (6 Marks)**

- i) Audit of the perpetual inventory system. Purchases of coal should be agreed to goods received documentation and issue out from inventory should be agreed to material requisitions.
- ii) The perpetual inventory records should be cast and the closing balances should be agreed to the inventory sheets
- iii) Any inventory checks performed by the company, or the external auditor during interim visits should be reviewed and balances agreed to the perpetual inventory system at the date of the check. Any discrepancies should be investigated
- iv) The inventory of coal should be physically verified at the statement of financial position date. It should be possible to determine the volume of the pile of coal by trigonometric means, and thence by a formula to the weight of coal in inventory.  
This can then be agreed to the perpetual inventory balances. Any differences should be investigated and adjusted for in inventory records
- v) Any coal in transit from the inventory pile to the production process should also be estimated and included in the inventory figure. Due to the nature of the inventory it may not be possible to accurately determine the weight and therefore the value of inventory held by the company. The auditor will therefore need to use his professional skill and judgment in determining the amount of coal to be included in the year end accounts.

**Total Marks 12**

**Q.3** It is the client's management responsibility to ensure that accounting records are kept and financial statements are prepared.

Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self review threat when the firm subsequently audits the financial statements.

In the above case, the firm can provide assistance provided it does not involve taking management decisions. Such management decisions include:

- Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the audit client;
- Authorizing or approving transactions; and
- Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data.

**Total Marks 08**

**Q.4 Importance of audit planning – 2 marks per point** **08**

1. It helps the auditor to devote appropriate attention to important areas of the audit.
2. It helps the auditor to identify and resolve potential problems on a timely basis.
3. It helps the auditor to properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.

**Contd....**



## **Summer Exam-2019**

### **Solutions – Audit, Assurance & Ethics**

4. It assists in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks and the proper assignment of work to them.
5. It facilitates the direction and supervision of engagement team members and the review of their work.
6. It assists, where applicable, in the coordination of work done by experts

**Identification of risk areas with a higher risk of misstatement- 2 marks per well explained point** **12**

A review of the draft financial statements for the company shows the following risks:

1. Sales have increased by 12% but COS by 19%. There is a risk of COS being overstated.
2. Inventory is down significantly on last year indicating that there may be valuation or quantity errors.
3. Trade receivables have increased by about 50%, significantly more than the increase in sales. This indicates that the company may have debt collection problems. Additional testing may be required on after date cash collections to check for bad debts.
4. Non-current assets have fallen by Rs. 900k, which is significant given that most non-current assets are land and buildings. The reason for sale must be ascertained.
5. Non-current liabilities have also fallen by Rs. 1 million. While not necessarily linked to the fall in non-current assets, there is a possibility that non-current assets have been sold to pay off the liabilities.
6. The client appears to be a going concern, although the fall in gross profit must be investigated. Cash and profit forecasts for the next 12 months must also be obtained to confirm ongoing profitability and that the fall in cash balances will not continue.
7. There is the possibility of related party transactions. One of the directors purchased a yacht during the year. Checks to be made to determine whether company products were purchased, and if so whether these were in the normal course of business.
8. A new inventory system has been introduced which increases the chances of errors.

**Total Marks 20**

Legal claim the claim is material and pervasive  
being more than 100% of profit before taxation.

There is also a lack of definitive supporting evidence for the claim. The two main pieces of evidence available are the claim from Aala Jutt itself and the legal advice from the lawyers.

However, any claim amount cannot be accurately determined because the dispute has not been settled.

The directors have stated that they believe the claim not to be justified, which is one possible outcome of the dispute.

However, in order to obtain sufficient evidence to show how the treatment of the potential claim was decided for the financial statements, the auditor must obtain this opinion in writing. Reference must therefore be made to the claim in the representation letter.

Written representation also needs to be obtained from the management regarding the impact of losing this claim on company's going concern.

**Contd....**



## **Summer Exam-2019**

### **Solutions – Audit, Assurance & Ethics**

#### **Depreciation**

This matter is unlikely to be included in the letter of representation because the auditor appears to have obtained sufficient evidence to confirm the accounting treatment.

The lack of profit or loss on sale confirms that the depreciation charge is appropriate – large profits would indicate under-depreciation and large losses, over-depreciation.

The amount also meets industry standards confirming that client's accounting policy is acceptable.

Including the point in the representation letter is inappropriate because the matter is not crucial and does not appear to be based on judgment or opinion.

The only opinion here appears to be that of the auditor – unless the 'feelings' can be turned into some appropriate audit evidence, the matter should be closed.

**Total Marks 16**

#### **Q.6. 2 marks per point**

Engagement letters for recurring/existing clients should be revised if any of the following factors are present:

- Any indication that the entity misunderstands the objective and scope of the audit, as this misunderstanding would need to be clarified.
- Any revised or special terms of the audit engagement, as these would require inclusion in the engagement letter.
- A recent change of senior management or significant change in ownership. The letter is signed by a director on behalf of those charged with governance; if there have been significant changes in management they need to be made aware of what the audit engagement letter includes.
- A significant change in nature or size of the entity's business. The approach taken by the auditor may need to change to reflect the change in the entity and this should be clarified in the engagement letter.
- A change in legal or regulatory requirements. The engagement letter is a contract; hence if legal or regulatory changes occur, then the contract could be out of date.
- A change in the financial reporting framework adopted in the preparation of the financial statements. The engagement letter clarifies the role of auditors and those charged with governance, it identifies the reporting framework of the financial statements and if this changes, then the letter requires updating.
- A change in other reporting requirements. Other reporting requirements may be stipulated in the engagement letter; hence if these change, the letter should be updated.

**Total Marks 10**

#### **Q.7. The factors which influence sample size are:**

- (i) Reliance on internal control – the result of the auditor's evaluation of internal controls and the reliance placed on them will influence the sample size. The greater the reliance on internal controls, the smaller the sample size.
- (ii) Materiality of the area under testing – the smaller the value of the area of the sample relative to the financial statements, the smaller the sample size will tend to be.
- (iii) Confidence level – this is the degree of certainty that the auditor has that the error rate in the population is within a specified range i.e. that the results of the sample reflect the state of the population.

**Contd....**



**Summer Exam-2019**  
**Solutions – Audit, Assurance & Ethics**

- (iv) Precision limits – this relates to the maximum tolerable error that the auditor is prepared to accept and still conclude that the audit objective has been achieved for substantive tests this will be a monetary error value.
- (v) Inherent risk – this depends on the nature of the company and of its operating environment. It will also depend on the account area i.e. the valuation of inventory is more likely to contain material error than Computerized Accounting System or bank balances. The previous audit records and files will also influence the level of risk expected to be found in the conduct of future audits.
- (vi) Reliance on audit tests in related area – analytical review for example, can reduce the sample size needed for substantive testing where confidence is gained as to sales trends and related costs.
- (vii) Stratification – whereas tests of control are equally applied to all selected items in a population, the number of items tested substantively may be reduced by effective stratification to identify items of material value which will account for the majority of value of an account area.

**Total Marks 05**

**Q.8.**

	<b>Weakness &amp; Implications</b>	<b>Control</b>
<b>a</b>	The directors do not monitor procurement activity. The Stores Manager has sole responsibility for selecting suppliers and could be receiving kickbacks from suppliers.	The directors should identify risks associated with its procurement /receiving /payables activity and should implement a strategy to monitor such risks and for example another member of staff outside the procurement department along with Stores Manager should be involved in selecting suppliers.
	Lack of proper criteria for selecting suppliers as volume criteria is not specified and nor are any credit references sought. Purchases may be made from unacceptable suppliers who may not represent a reliable source of supply because of production inability or financial constraints.	Volume requirements should be considered when selecting a supplier as well as their financial stability (credit reference checks) by the finance department.
	Stores clerk does not count and inspect goods received. Goods may be inaccurately entered into the computerized accounting system (quantities and type).	The stores clerk should count the parts and inspect them before entering this information into the computerized accounting system.

06

**Q.8. Audit procedures procurement, receiving and payables systems:**

10

- b**
  1. Obtain a sample of authorized suppliers and check for local certification to confirm that all authorized suppliers have the requisite certification
  2. Obtain a sample of POs in the computerized accounting system, record details of the PO and trace to the bill of lading filed in the goods inwards department to confirm that all goods ordered were received.
  3. For the sample of POs above, agree to the inventory records in the computerized accounting system to confirm that goods received were completely and accurately recorded in the inventory records.

**Contd....**



**Summer Exam-2019**  
**Solutions – Audit, Assurance & Ethics**

4. Obtain a sample of bills of lading and agree to the computerized accounting system to confirm that inventory received has been recorded in UPLIFT's computerized accounting system and that liabilities are therefore not understated.
5. For a sample of POs, agree details to trade payables, confirming details against the supplier invoice to confirm complete and accurate recording of the inventory liability in trade payables.
6. For a sample of invoices in the computerized accounting system, agree details to the bills of lading for items on that invoice to confirm that the purchase liability has been recorded only for goods actually received.
7. For a sample of supplier invoices, tot and cross tot invoice price and quantities confirming price to the original order to confirm the arithmetical accuracy of invoices and ensure the company was charged the correct price for goods received.

**Total Marks 16**

**Q.9. 2 marks per point which is linked to the case. Only half a mark if no linkage created. Remember, this is for factors within the firm only.**

Before accepting appointment the firm should ensure that:

- (i) it has the necessary staff with appropriate competencies to complete the audit (this seems likely given that the firm has other clients in this sector);
- (ii) the staff are available at what is a busy time of year for the firm (it may be possible that all of the staff with the necessary competencies are otherwise occupied);
- (iii) The firm is independent of Ringadoo. It is unlikely that there will be any issues concerning shareholdings in the client (because it is owned and run by two entrepreneurs), however, there may be staff or partners who are related to the client or are otherwise connected with it;
- (iv) There are no conflicts of interest that cannot be properly managed. Conflicts of interest may exist because the firm has other clients in this sector.

**Total Marks 06**

\*\*\*\*\*