



**Pakistan Institute  
of Public Finance Accountants**

**Corporate Sector**

**Model  
Solutions**

**Winter Exam-2019**

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## Winter Exam-2019 Solutions – Business Law

- Ans.1** Relevant Provisions 30,12,17 **02**
- (a) Yes, A minor can become a part to the partnership.
- Ans.1** Section 30: **03**
- (b) Minors admitted to the benefits of partnership.—
- (1) A person who is a minor according to the law to which he is subject may not be a partner in a firm, but, with the consent of all the partners for the time being, he may be admitted to the benefits of partnership.
- (2) Such minor has a right to such share of the property and of the profits of the firm as may be agreed upon, and he may have access to and inspect and copy any of the accounts of the firm.
- (3) Such minor's share is liable for the acts of the firm, but the minor is not personally liable for any such act.
- (4) Such minor may not sue the partners for an account or payment of his share of the property or profits of the firm, save when severing his connection with the firm, and in such case the amount of his share shall be determined by a valuation made as far as possible in accordance with the rules contained in section 48: Provided that all the partners acting together or any partner entitled to dissolve the firm upon notice to other partners may elect in such suit to dissolve the firm, and thereupon the court shall proceed with the suit as one for dissolution and for settling accounts between the partners, and the amount of the share of the minor shall be determined along with the shares of the partners.
- (5) At any time within six months of his attaining majority, or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, such person may give public notice that he has elected to become or that he has elected not to become a partner in the firm, and such notice shall determine his position as regards the firm: Provided that, if he fails to give such notice, he shall become a partner in the firm on the expiry of the said six months.
- (6) Where any person has been admitted as a minor to the benefits of partnership in a firm, the burden of proving the fact that such person had no knowledge of such admission until a particular date after the expiry of six months of his attaining majority shall lie on the persons asserting that fact.
- (7) where such person becomes a partner,—
- (a) his rights and liabilities as a minor continue up to the date on which he becomes a partner, but he also becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership, and
- (b) his share in the property and profits of the firm shall be the share to which he was entitled as a minor.
- (8) Where such person elects not to become a partner,—
- (a) his rights and liabilities shall continue to be those of a minor under this section up to the date on which he gives public notice,
- (b) his share shall not be liable for any acts of the firm done after the date of the notice, and
- (c) he shall be entitled to sue the partners for his share of the property and profits in accordance with sub-section (4).
- Ans.1** (9) Nothing in sub-sections (7) and (8) shall affect the provisions of section 28. **05**
- (c) Section 12:  
The conduct of the business.—Subject to contract between the partners,—
- (a) every partner has a right to take part in the conduct of the business;
- (b) every partner is bound to attend diligently to his duties in the conduct of the business;
- (c) any difference arising as to ordinary matters connected with the business may be decided by a majority of the partners, and every partner shall have the right to express his opinion, before the matter is decided, but no change may be made in the nature of the



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business without the consent of all the partners; and

(d) every partner has a right to have access to and to inspect and copy any of the books of the firm.

(e) in the event of the death of a partner, his heirs or legal representatives or their duly authorised agents shall have a right of accesses to and to inspect and copy any of the books of the firm”.

Section 17:

Rights and duties of partners.—Subject to contract between the partners—

(a) after a change in the firm.—where a change occurs in the constitution of a firm, the mutual rights and duties of the partners in the reconstituted firm remain the same as they were immediately before the change, as far as may be;

(b) after the expiry of the term of the firm, and.—where a firm constituted for a fixed term continues to carry on business after the expiry of that term, the mutual rights and duties of the partners remain the same as they were before the expiry, so far as they may be consistent with the incidents of partnership at will; and

(c) where additional undertakings are carried out.—where a firm constituted to carry out one or more adventures or undertakings carries out other adventures or undertakings, the mutual rights and duties of the partners in respect of the other adventures or undertakings are the same as those in respect of the original adventures or undertakings.

**Total Marks 10**

**Ans.2 Article 233.**

**05**

(a)

Power to suspend Fundamental Rights, etc., during emergency period.—(1) Nothing contained in Articles 15, 16, 17, 18, 19, and 24 shall, while a proclamation of Emergency is in force, restrict the power of the State as defined in Article 7 to make any law or take any executive action which it would, but for the provisions in the said Articles, be competent to make or to take, but any law so made shall, to the extent of the incompetency, cease to have effect, and shall be deemed to have been repealed, at the time when the Proclamation is revoked or has ceased to be in force.

(2) While a Proclamation of Emergency is in force, the President may, by Order, declare that the right to move any Court for the enforcement of such of the Fundamental Rights conferred by Chapter I of Part II as may be specified in the Order, and any proceeding in any Court which is for the enforcement, or involves the determination of any question as to the infringement, of any of the Rights so specified, shall remain suspended for the period during which the Proclamation is in force, and any such Order may be made in respect of the whole or any part of Pakistan.

(3) Every Order made under this Article shall, as soon as may be, be laid before 1[both Houses of Majlis-e-Shoora (Parliament) separately] for approval and the provisions of clauses (7) and (8) of Article 232 shall apply to such an Order as they apply to Proclamation of Emergency.

**Ans.2 Jurisdiction of Supreme Court;**

**05**

(b)

The Supreme Court exercise original, appellate and review jurisdiction. It possesses exclusive original jurisdiction for the settlement of intergovernmental disputes between Federal and Provincial Government. Under this jurisdiction, the Court pronounces declaratory judgements. The Supreme Court can also exercise original jurisdiction, with respect to the enforcement of fundamental rights, if the case involves an issue of public importance. The Court also exercise advisory jurisdiction, where under the President may obtain its opinion on a question of law. Under its appellate jurisdiction, the court entertains appeals against orders and decision of High Courts and other special courts.

**Total Marks 10**



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### Ans.3 Relevant Provisions: 2(h), 2(e),10

According to section 2(h) of the Contract Act 1872:

“An agreement enforceable by law is a contract.”

section 2 (e) of Contract At 1872:

“Every promise and every set of promises, forming the consideration for each other, is an agreement.” Thus it is clear from this definition that a ‘promise’ is an agreement.

An agreement to become a contract must give rise to a legal obligation. If an agreement is incapable of creating a duty enforceable by law. It is not a contract. Thus an agreement is a wider term than a contract.

Agreements of moral, religious or social nature e.g., a promise to lunch together at a friend’s house or to take a walk together are not contracts because they are not likely to create a duty enforceable by law for the simple reason that the parties never intended that they should be attended by legal consequences

On the other hand, legal agreements are contracts because they create legal relations between the parties.

**Total Marks 10**

### Ans.4 Relevant Sections: 43, 44, 46, 47, 48

**03**

(a) Under the Contract only a promisee can demand the performance of a promise.

### Ans.4 Section 43:

**05**

(b) Any one of joint promisors may be compelled to perform.—When two or more persons make a joint promise, the promisee may, in the absence of express agreement to the contrary, compel any 1[one or more] of such joint promisors to perform the whole of the promise. —When two or more persons make a joint promise, the promisee may, in the absence of express agreement to the contrary, compel any 1[one or more] of such joint promisors to perform the whole of the promise." Each promisor may compel contribution.—Each of two or more joint promisors may compel every other joint promisor to contribute equally with himself to the performance of the promise, unless a contrary intention appears from the contract. —Each of two or more joint promisors may compel every other joint promisor to contribute equally with himself to the performance of the promise, unless a contrary intention appears from the contract." Sharing of loss by default in contribution.—If any one of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares. —If any one of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares." Explanation.—Nothing in this section shall prevent a surety from recovering, from his principal, payments made by the surety on behalf of the principal, or entitle the principal to recover anything from the surety on account of payment made by the principal.

Effect of release of one joint promisor.—Where two or more persons have made a joint promise, a release of one of such joint promisors by the promisee does not discharge the other joint promisor or joint promisors, neither does it free the joint promisors so released from responsibility to the other joint promisor or joint promisors.

Effect of release of one joint promisor.—Where two or more persons have made a joint promise, a release of one of such joint promisors by the promisee does not discharge the other joint promisor or joint promisors, neither does it free the joint promisors so released from responsibility to the other joint promisor or joint promisors.



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**Ans.4 Section 46:**

**02**

- (c) Time for performance of promise, where no application is to be made and no time is specified.—Where, by the contract, a promisor is to perform his promise without application by the promisee, and no time for performance is specified, the engagement must be performed within a reasonable time. —Where, by the contract, a promisor is to perform his promise without application by the promisee, and no time for performance is specified, the engagement must be performed within a reasonable time." Explanation.—The question “what is a reasonable time” is, in each particular case, a question of fact.  
Section 47.

Time and place for performance of promise, where time is specified and no application to be made.—When a promise is to be performed on a certain day, and the promisor has undertaken to perform it without application by the promisee, the promisor may perform it at any time during the usual hours of business on such day and at the place at which the promise ought to be performed. —When a promise is to be performed on a certain day, and the promisor has undertaken to perform it without application by the promisee, the promisor may perform it at any time during the usual hours of business on such day and at the place at which the promise ought to be performed." Illustration A promises to deliver goods at B’s warehouse on the first January. On the day A brings the goods to B’s warehouse, but after the usual hour closing it, and they are not received. A has not performed his promise. A promises to deliver goods at B’s warehouse on the first January. On the day A brings the goods to B’s warehouse, but after the usual hour closing it, and they are not received. A has not performed his promise."  
Section 48.

Application for performance on certain day to be at proper time and place.—When a promise is to be performed on a certain day, and the promisor has not undertaken to perform it without application by the promisee, it is the duty of the promisee to apply for performance at a proper place and within the usual hours of business. —When a promise is to be performed on a certain day, and the promisor has not undertaken to perform it without application by the promisee, it is the duty of the promisee to apply for performance at a proper place and within the usual hours of business." Explanation.—The question “what is a proper time and place” is, in each particular case, a question of fact.

**Total Marks 10**

**Ans.5**

**05**

- (a) A single member company can be defined as a company with only one member, also referred to as the shareholder. A company may be formed as a single member company or may become a single member company following a share transfer whereby the number of shareholders is reduced to one.

**Advantages of a Single Member Company**

The advantages of a single member company are primarily the same as those of a private limited company incorporated under the Companies Acts and include:

Limited liability protection for the members; as the company is a separate legal entity, the finances of the company are separate to those of the owners;

The existence of the company does not cease on the death of a member or director;

*Contd.....*



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There may be additional tax benefits to setting up a limited company; limited companies are subject to lower corporation tax; and

Specific to a single member company, the sole member can dispense with holding general meetings, including the Annual General Meeting (AGM). Where the decision is made to dispense with the AGM, the accounts and reports that would usually be laid before the AGM in accordance with the Companies Act 1963, must instead be forwarded to the sole member

**Ans.5 Section 46.**

05

**(b)** Conversion of public company into private company and vice-versa.—(1) A public company may be converted into a private company with the prior approval of the Commission in writing by passing a special resolution in this behalf by the public company amending its memorandum and articles of association in such a manner that they include the provisions relating to a private company in the articles and complying with all the requirements as may be specified:

Provided that in case of conversion of a listed company into a private company, the Commission shall give notice of every application made to it, to the securities exchange and shall take into consideration the representation if any, made to it by the securities exchange.

(2) On an application for change in status of a company under subsection (1), if the Commission is satisfied that the company is entitled to be so converted, such conversion shall be allowed by an order in writing. (3) A copy of the order, confirming the conversion under sub-section (2), duly certified by an authorised officer of the Commission shall be forwarded to the company and to the registrar within seven days from the date of the order.

(4) A copy of the memorandum and articles of association as altered pursuant to the order under sub-section (2) shall, within fifteen days from the date of the order, be filed by the company with the registrar and he shall register the same and thenceforth the memorandum and articles so filed shall be the memorandum and articles of the newly converted company.

(5) If a company, being a private company, alters its articles in such a manner that they no longer include the provisions which, under sub-section (1) of section 2, are required to be included in the articles of a company in order to constitute it a private company, the company shall—

(a) as on the date of the alteration, cease to be a private company; and

(b) file with the registrar a copy of the memorandum and articles of association as altered along with the special resolution.

(6) If default is made in complying with the provisions of any of the preceding subsections, the company and every officer of the company who is in default shall be liable to a penalty not exceeding of level 2 on the standard scale.

**Total Marks 10**



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05

**Ans.6 Section 301**

- (a)** Circumstances in which a company may be wound up by Court.—A company may be wound up by the Court— (a) if the company has, by special resolution, resolved that the company be wound up by the Court; or
- (b) if default is made in delivering the statutory report to the registrar or in holding the statutory meeting; or
- (c) if default is made in holding any two consecutive annual general meetings; or
- (d) if the company has made a default in filing with the registrar its financial statements or annual returns for immediately preceding two consecutive financial years; or
- (e) if the number of members is reduced, in the case of public company, below three and in the case of a private company below two; or
- (f) if the company is unable to pay its debts; or
- (g) if the company is--
- (i) conceived or brought forth for, or is or has been carrying on, unlawful or fraudulent activities; or
  - (ii) carrying on business prohibited by any law for the time being in force in Pakistan; or restricted by any law, rules or regulations for the time being in force in Pakistan; or
  - (iii) conducting its business in a manner oppressive to the minority members or persons concerned with the formation or promotion of the company; or
  - (iv) run and managed by persons who fail to maintain proper and true accounts, or commit fraud, misfeasance or malfeasance in relation to the company; or
  - (v) managed by persons who refuse to act according to the requirements of the memorandum or articles or the provisions of this Act or failed to carry out the directions or decisions of the Commission or the registrar given in the exercise of powers under this Act; or
- (h) if, being a listed company, it ceases to be such company; or
- (i) if the Court is of opinion that it is just and equitable that the company should be wound up; or
- (j) if a company ceases to have a member; or
- (k) if the sole business of the company is the licensed activity and it ceases to operate consequent upon revocation of a licence granted by the Commission or any other licencing authority; or
- (l) if a licence granted under section 42 to a company has been revoked or such a company has failed to comply with any of the provisions of section 43 or where a company licenced under section 42 is being wound up voluntarily and its liquidator has failed to complete the winding up proceedings within a period of one year from the date of commencement of its winding up; or
- (m) if a listed company suspends its business for a whole year
- (a) whereby, in return for a deposit or contribution, whether periodically or otherwise, of a sum of money in cash or by means of coupons, certificates,





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tickets or other documents, payment, at future date or dates of money or grant

of property, right or benefit, directly or indirectly, and whether with or without any other right or benefit, determined by chance or lottery or any other like manner, is assured or promised; or

(b) raising un-authorised deposits from the general public, indulging in referral marketing, multi-level marketing (MLM), Pyramid and Ponzi Schemes, locally or internationally, directly or indirectly; or

(c) any other business activity notified by the Commission to be against public policy or a moral hazard; shall be deemed to be an unlawful activity.

**Explanation II.**—“Minority members” means members together holding not less than ten percent of the equity share capital of the company.

302. Company when deemed unable to pay its debts.—(1) A company shall be deemed to be unable to pay its debts:

(a) if a creditor, by assignment or otherwise, to whom the company is indebted in a sum exceeding one hundred thousand rupees, then due, has served on the company, by causing the same to be delivered by registered post or otherwise, at its registered office, a demand under his hand requiring the company to pay the sum so due and the company has for thirty days thereafter neglected to pay the sum, or to secure or compound for it to the reasonable satisfaction of the creditor; or

(b) if execution or other process issued on a decree or order of any Court or any other competent authority in favour of a creditor of the company is returned unsatisfied in whole or in part; or

(c) if it is proved to the satisfaction of the Court that the company is unable to pay its debts, and, in determining whether a company is unable to pay its debts, the Court shall take into account the contingent and prospective liabilities of the company. (2) The demand referred to in clause (a) of sub-section (1) shall be deemed to have been duly given under the hand of the creditor if it is signed by an agent or legal adviser duly authorised on his behalf

**Ans.6** A director is a person from a group of managers who leads or supervises a particular area of a company. ... Regional directors are present in companies that are organized by location and have their departments under that. They are responsible for the operations for their particular country. 05

**(b)** Ineligibility of certain persons to become director.—A person shall not be eligible for appointment as a director of a company, if he — (a) is a minor; (b) is of unsound mind; (c) has applied to be adjudicated as an insolvent and his application is pending; (d) is an undischarged insolvent; (e) has been convicted by a court of law for an offence involving moral turpitude; (f) has been debarred from holding such office under any provision of this Act; (g) is lacking fiduciary behaviour and a declaration to this effect has been made by the Court under section 212 at any time during the preceding five years; (h) does not hold National Tax Number as per the provisions of Income Tax Ordinance, 2001 (XLIX of 2001):



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**Provided that the Commission may grant exemption from the requirement of this clause as may be notified.** (i) is not a member:

Provided that clause (i) shall not apply in the case of,—

- (i) a person representing a member which is not a natural person;
- (ii) a whole-time director who is an employee of the company;
- (iii) a chief executive; or
- (iv) a person representing a creditor or other special interests by virtue of contractual arrangements;
  
- (j) has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution;
  
- (k) is engaged in the business of brokerage, or is a spouse of such person or is a sponsor, director or officer of a corporate brokerage house:

Provided that clauses (j) and (k) shall be applicable only in case of listed companies

**Total Marks    10**

**Ans.7    Relevant provisions 247**

**02**

- (a)** No, because he owes less than Rupees one million, which is the threshold beyond that a debtor of the Bank will be considered disqualified.

**Ans.7    Section 247**

**08**

- (b)** 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 subsection (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;

**Contd....**



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- (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.

**Explanation.**—Reference in this section to an —officer or —employee shall be construed as not including reference to an auditor.

- (4) For the purposes of clause (d) of sub-section (3) a person who owes— (a) a sum of money not exceeding one million rupees to a credit card issuer; or  
(b) a sum to a utility company in the form of unpaid dues for a period not exceeding ninety days; shall not be deemed to be indebted to the company.
- (5) A person shall also not be qualified for appointment as auditor of a company if he is, by virtue of the provisions of sub-section (3), disqualified for appointment as auditor of any other company which is that company's subsidiary or holding company or a subsidiary of that holding company.
- (6) If, after his appointment, an auditor becomes subject to any of the disqualifications specified in this section, he shall be deemed to have vacated his office as auditor with effect from the date on which he becomes so disqualified.
- (7) A person who, not being qualified to be an auditor of a company, or being or having become subject to any disqualification to act as such, acts as auditor of a company shall be liable to a penalty of level 2 on the standard scale.
- (8) The appointment as auditor of a company of an unqualified person, or of a person who is subject to any disqualifications to act as such, shall be void, and, where such an appointment is made by a company, the Commission may appoint a qualified person in place of the auditor appointed by the company.

**Total Marks 10**



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**Ans.8 Relevant Provisions= 85,86,87,88,59**

03

**(a) Section 85**

Power of company to alter its share capital.—(1) A company having share capital may, if so authorised by its articles, alter the conditions of its memorandum through a special resolution, so as to (a) increase its authorised capital by such amount as it thinks expedient;

(b) consolidate and divide the whole or any part of its share capital into shares of larger amount than its existing shares;

(c) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum:

(d) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the share so cancelled:

Provided that, in the event of consolidation or sub-division of shares, the rights attaching to the new shares shall be strictly proportional to the rights attached to the previous shares so consolidated or sub-divided:

Provided further that, where any shares issued are of a class which is the same as that of shares previously issued, the rights attaching to the new shares shall be the same as those attached to the shares previously held.

(2) The new shares issued by a company shall rank paripassu with the existing shares of the class to which the new shares belong in all matters, including the right to such bonus or right issue and dividend as may be declared by the company subsequent to the date of issue of such new shares.

(3) A cancellation of shares in pursuance of sub-section (1) shall not be deemed to be a reduction of share capital within the meaning of this Act.

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

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

**Ans.8 Section 86.**

03

**(b)** Prohibition of purchase by company or giving of loans by it for purchase of its shares. (1) No company having a share capital, other than a listed company shall have power to buy its own shares.

(2) No public company or a private company being subsidiary of a public company shall give financial assistance whether directly or indirectly for the purpose of, or in connection with, a purchase or subscription made or to be made, by any person of any shares in the company or in its holding company. (3) Nothing in sub-section (2) shall apply to—

(a) the lending of money by a banking company in the ordinary course of its business;

(b) the provision by a company of money in accordance with any scheme approved by company through special resolution and in accordance with such requirements as may be specified, for the purchase of, or subscription for shares in the company or its holding company, if the purchase of, or the subscription for, the shares held by a trust for the benefit of the employees or such shares held by the employee of the company;



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(c) the provision or securing an advance to any of its employees, including a chief executive who, before his appointment as such, was not a director of the company, but excluding all directors of the company, for purchase of shares of the company or of its subsidiary or holding company.

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

#### **Section 87.**

Subsidiary company not to hold shares in its holding company.—(1) No company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void:

#### **Provided that a subsidiary shall not be barred—**

(a) from acting as a trustee unless its holding company is beneficially interested under the trust; and

(b) from dealing in shares of its holding company in the ordinary course of its business, on behalf of its clients only subject to nonprovision of any financial assistance where such subsidiary carries on a bona fide business of brokerage:

Provided further that a subsidiary dealing in shares of its holding company in the ordinary course of its brokerage business, shall not exercise the voting rights attached to such shares:

Provided also that the provisions of this section shall not be applicable where such shares are held by a company by operation of law.

(2) Any violation of this section shall be an offence liable to a penalty of level 2 on the standard scale.

#### **Section 88.**

Power of a company to purchase its own shares.—(1)

Notwithstanding anything contained in this Act or any other law, for the time being in force, or the memorandum and articles, a listed company may, subject to the provisions of this section and the regulations specified in this behalf, purchase its own shares.

(2) The shares purchased by the company may, in accordance with the provisions of this section and the regulations, either be cancelled or held as treasury shares.

(3) The shares held by the company as treasury shares shall, as long as they are so held, in addition to any other conditions as may be specified, be subject to the following conditions, namely—

(a) the voting rights of these shares shall remain suspended; and

(b) no cash dividend shall be paid and no other distribution, whether in cash or otherwise of the company's assets, including any distribution of assets to members on a winding up shall be made to the company in respect of these shares:

Provided that nothing in this sub-section shall prevent—

(a) an allotment of shares as fully paid bonus shares in respect of the treasury shares; and



## Winter Exam-2019 Solutions – Business Law

(b) the payment of any amount payable on the redemption of the treasury shares, if they are redeemable.

(4) The board shall recommend to the members purchase of the shares. The decision of the board shall clearly specify the number of shares proposed to be purchased, purpose of the purchase i.e. cancellation or holding the shares as treasury shares, the purchase price, period within which the purchase shall be made, source of funds, justification for the purchase and effect on the financial position of the company.

(5) The purchase of shares shall be made only under authority of a special resolution.

(6) The purchase of shares shall be made within a period as specified in the regulations.

(7) The proposal of the board to purchase shares shall, on conclusion of the board's meeting, be communicated to the Commission and to the securities exchange on which shares of the company are listed.

(8) The purchase of shares shall always be made in cash and shall be out of the distributable profits or reserves specifically maintained for the purpose.

(9) The purchase of shares shall be made either through a tender offer or through the securities exchange as may be specified.

(10) The company may dispose of the treasury shares in a manner as may be specified.

(11) Where a purchase of shares has been made under this section, the company shall maintain a register of shares so purchased and enter therein the following particulars, namely—

- (a) number of shares purchased;
- (b) consideration paid for the shares purchased;
- (c) mode of the purchase;
- (d) the date of cancellation or re-issuance of such shares;
- (e) number of bonus shares issued in respect of treasury shares; and
- (f) number and amount of treasury shares redeemed, if redeemable.

(12) Any violation of this section shall be an offence liable to a penalty of level 3 on the standard scale and shall also be individually and severally liable for any or all losses or damages arising out of such contravention.

### **Ans.8 Section 59.**

04

**(c)** Variation of shareholders' rights.—(1) The variation of the right of shareholders of any class shall be effected only in the manner laid down in section 38.

(2) Not less than ten percent of the class of shareholders who are aggrieved by the variation of their rights under sub-section (1) may, within thirty days of the date of the resolution varying their rights, apply to the Court for an order cancelling the resolution:

Provided that the Court shall not pass such an order unless it is shown to its satisfaction that some facts which would have had a bearing on the decision of the shareholders were withheld by the company in getting the aforesaid resolution passed or, having regard to all the circumstances of the case, that the variation would unfairly prejudice the shareholders of the class represented by the applicant.

(3) An application under sub-section (2) may be made on behalf of the shareholders entitled to make it by such one or more of their number as they may authorise in writing in this behalf.



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(4) The company shall, within fifteen days of the service on the company of any order made on any such application, forward a copy of the order to the registrar and, if default is made in complying with this provision, the person making the default shall be guilty of an offence under this section and be liable to a penalty not exceeding of level 1 on the standard scale.

(5) The expression —variation under this section includes abrogation, revocation or enhancement.

**Total Marks 10**

**Ans.9 Section 27**

05

**(a)** Sale by person not the owner.--- Subject to the provisions of this Act and of any other law for the time being in force, where goods are sold by a person who is not the owner thereof and who does not sell them under the authority or with the consent of the owner, the buyer acquires no better title to the goods than the seller had, unless the owner of the goods is by his conduct precluded from denying the seller's authority to sell:

Provided that, where a mercantile agent is, with the consent of the owner, in possession of the goods or of document of title to the goods, any sale made by him, when acting in the ordinary course of business of a mercantile agent, shall be as valid as if he were expressly authorized by the owner of the goods to make the same; provided that the buyer acts in good faith and has not at the time of the contract of sale notice that the seller has not authority to sell

**Ans.9 Section 12.**

05

**(b) Condition and warranty.—**

(1) A stipulation in a contract of sale with reference to goods which are the subject thereof may be a condition or a warranty.

(2) A condition is a stipulation essential to the main purpose of the contract, the breach of which gives rise to a right to treat the contract as repudiated.

(3) A warranty is a stipulation collateral to the main purpose of the contract, the breach of which gives rise to a claim for damages but not to a right to reject the goods and treat the contract as repudiated.

(4) Whether a stipulation in a contract of sale is a condition or a warranty depends in each case on the construction of the contract. A stipulation may be a condition, though called a warranty in the contract.

**Section 13.**

When condition to be treated as warranty.—

(1) Where a contract of sale is subject to any condition to be fulfilled by the seller, the buyer may waive the condition or elect to treat the breach of the condition as a breach of warranty and not as a ground for treating the contract as repudiated.

(2) Where a contract of sale is not severable and the buyer has accepted the goods or part thereof, [\*\*\*] the breach of any condition to be fulfilled by the seller can only be treated as a breach of warranty and not as a ground for rejecting the goods and treating the contract as repudiated, unless there is a term of the contract, express or implied, to that



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effect.

(3) Nothing in this section shall affect the case of any condition or warranty fulfilment of which is excused by law by reason of impossibility or otherwise.

### **Section 14.**

Implied undertaking as to title, etc.—In a contract of sale, unless the circumstances of the contract are such as to show a different intention there is—

(a) an implied condition on the part of the seller that, in the case of a sale, he has a right to sell the goods and that, in the case of an agreement to sell, he will have a right to sell the goods at the time when the property is to pass;

(b) an implied warranty that the buyer shall have and enjoy quiet possession of the goods;

(c) an implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time when the contract is made.

**Total Marks 10**

### **Ans.10 Structure of Courts in Pakistan:**

**05**

1. Supreme Court
2. High Courts
3. Criminal Courts
4. Civil Courts
5. Federal Shariat Court

### **Sources of law**

**05**

1. Legislation
2. Precedent
3. Custom
4. Agreement

**Total Marks 10**

\*\*\*\*\*





## Winter Exam-2019 Solutions – Economics

### Q.1. Positive Economics:

04

- (a) It is a type of economic analysis in which economic facts are described. For example, if we say, Pakistan is facing Current account deficit now a days, it would be positive economics.

### Normative Economics:

It is a type of economic analysis in which Economists do not only describe the economic facts but also give their opinion about the facts or give some suggestions for improvement. For example if we say, to reduce current account deficit in Pakistan, we should decrease our imports; this would be Normative Economics.

### Q.1. Rewards of Factors of Production:

06

- (b) Four factors; Land, Labour, Capital and entrepreneur produce goods and services. Each factor gets reward. Rewards of factors of production are :

1. **Rent:** The amount paid to land lord for the use of land is called Rent.
2. **Wages:** The Payments given to laborers against their services are called wages.
3. **Interest:** The amount which is given to owner of capital for use of capital OR Interest is the reward of sacrificing liquidity of money.
4. **Profit:** It is the amount left after bearing all expenses of production. All other rewards are positive but Profit can't be negative i.e. Loss.

**Total Marks 10**

- Q.2. **Perishable Goods:** Perishable goods are those goods which cannot be stored and used in future time. For example fish, milk, vegetables, flowers etc. 04

**Durable Goods:** Durable goods are those goods which can be stored and used in future time, for example wheat, cloth etc.

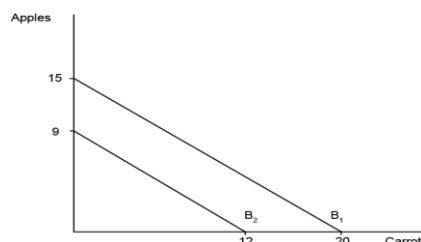
- Q.2. A negative cross-price elasticity of demand implies that the two goods are complements. So Printer and Cartridge are complements, as are Gaming Portals and DVD's of Games. A positive cross-price elasticity of demand implies that the two goods are substitutes. So Milk Shake and Fresh Orange Juice are substitutes, as are CFC's and Dee's Burgers. 03

- (b) (i) A cross-price elasticity of 0.63 implies that a 1% increase in the price of Fresh Orange Juice would increase the quantity of Milk Shake demanded by 0.63%. Therefore, a 5% increase in the price of Fresh Orange Juice would increase the quantity of Milk Shake demanded by five times as much, that is, by  $5 \times 0.63\% = 3.15\%$ . 03

**Total Marks 10**

### Q.3.

- (a) (i) 02



When finding the points at which it crosses on the X and Y axis, the following calculations are performed:

$$30/2 = 15 \text{ apples, } 30/1.50 = 20 \text{ carrots}$$

When Omar's budget falls, the following calculations are:

$$18/2 = 9 \text{ apples, } 18/1.50 = 12 \text{ carrots}$$



## Winter Exam-2019 Solutions – Economics

**Q.3.** The slope of BL =  $P_x/P_y$ ,  $1.5/2 = 0.75$ , In words, the opportunity cost of one carrot is 0.75  
**(a)** apples. In this instance, the slope of the budget line has remained the same; it has simply  
**(ii)** shifted. 02

**Q.3.** In the short run (A time period in which at least one of the factors of production is fixed), the  
**(b)** shape of the average total cost curve (ATC) is *U-shaped*. The short run average cost curve falls  
in the beginning, reaches a minimum and then begins to rise. 06

### Reasons of Declining SAC curve:

1. The short run average cost is the sum total of average fixed cost and average variable cost. The average fixed cost declines as the total fixed cost is spread over a large volume of output. So the average total unit cost (or AC) falls sharply when output increases.
2. When a firm produces below the efficient capacity (point where SAC is minimum), by applying an additional unit of variable factor, marginal returns increase and in result AVC decreases. The fall in average variable cost will cause decrease in average total cost.
3. In the beginning both AVC and AFC curves fall, the ATC curve therefore falls in the beginning.
4. In this "typical" case, for low levels of production marginal costs are below average costs, so average costs are decreasing as quantity increases

### Reasons of Increasing SAC curve:

1. Short Average Cost declines in the start, reaches at minimum and then begins to increase. The main reason of increasing AC is decreasing marginal returns.
2. When AVC curve begins to rise but AFC curve is falling steadily, ATC curve continues to increase. As during this time the fall in AFC curve weighs less than the rise in the AVC curve.

Thus, the behaviour of the average total unit cost curve depends upon the behaviour of the average variable cost and average fixed cost curve and it is of "U" shaped.

**Total Marks 10**

**Q.4. Collusive Oligopoly:** 04  
**(a)** Collusive oligopoly is a form of market in which a few firms form a mutual agreement to avoid competition. They form a cartel and fix the output quotas and the market price. A cartel is a formal agreement among firms regarding pricing and/or market sharing.

### Non Collusive Oligopoly:

Non-collusive oligopoly is a form of market in which few firms. Each firm has its price and output policy is independent of the rival firms in the market.

**Q.4. Disadvantages of Monopoly:** 06  
**(b)**

1. **Consumer Exploitation:** A monopoly market is best known for consumer exploitation. There are indeed no competing products and as a result the consumer gets a raw deal in terms of quantity, quality and pricing.
2. **Higher Price:** Due to lack of competition a monopolist charges higher price than competitive markets.



## Winter Exam-2019 Solutions – Economics

### 3. Inefficiencies of a Monopolist firm:

- **Productive Inefficiency:** A monopolist firm does not produce at the lowest of average cost.
- **Allocative Inefficiency:** Under Monopoly, Price is greater than marginal cost ( $P > MC$ ). It describes Allocative Inefficiency.
- **X-Inefficiency:** Due to lack of competitive pressure, a monopolist firm does not engage in technical efficient practices.

### 4. Low Quality Goods: Since there is no competition in such a market, a monopoly can often provide low or inferior quality of goods to save their costs of production and make more profits.

**Total Marks 10**

### Q.5. Nominal GDP:

04

- (a) Nominal GDP, or nominal gross domestic product, is a measure of the value of all final goods and services produced within a country's borders at current market prices.

**Real GDP:** Real [gross domestic product \(GDP\)](#) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices, and is often referred to as "constant-price."

### Q.5. The Expenditure Method:

06

- (b) The expenditure approach measures national income as total spending on final goods and services produced within nation during a year: The expenditure approach to measuring national income is to add up all expenditures made for final goods and services at current market prices by households, firms and government during a year. Total aggregate final expenditure on final output thus is the sum of four broad categories of expenditures (i) consumption (ii) Investment (iii) government and (iv) Net exports.

- Consumption expenditure:** Consumption expenditure is the largest component of national income. It includes expenditure on all goods and services produced and sold to the final consumer during the year.
- Investment expenditure:** Investment is the use of today's resources to expand tomorrow's production or consumption. Investment expenditure is expenditure incurred by business firms on capital goods to generate further income.
- Government expenditure:** (G) it is the second largest component of national income. It includes government consumption and government investment.
- Net exports:** Net exports are defined as value of exports minus value of imports.

**This method of measuring NI involves the following steps:**

$$\text{GDP (at market prices)} = C + I + G + (X - M)$$

$$\text{GNP (at market prices)} = \text{GDP} + \text{Net Factor Income from abroad}$$

$$\text{NNP (at market prices)} = \text{GNP} - \text{Depreciation of capital}$$

$$\text{NNP (at factor cost)/National Income} = \text{NNP (at market prices)} - \text{Indirect Tax} + \text{Subsidies}$$

**Total Marks 10**



## Winter Exam-2019 Solutions – Economics

<b>Q.6.</b> <b>(a)</b>	National Income	0	100	200	300	400	500	06
	Consumption Level	80	140	200	260	320	380	
	Saving Level	-80	-40	0	40	80	120	
	Average Propensity to Consume ( APC)	-	1.4	1	0.87	0.8	0.76	
	Average Propensity to Save ( APS)	-	-0.4	0	0.13	0.2	0.24	

**Q.6.** “a” is intercept in consumption function. It indicates consumption at zero income. And “b” is slope of consumption function. It is ; change in C/change in Y 02

$$60/100 = 0.6$$

$$C = 80 + 0.6Y$$

**Q.6.** If Y=5000 02

**(c)**  $C = 80 + 0.6(5000) = 3,080$

$$S = Y - C = 5000 - 3,080 = 1,920$$

**Total Marks 10**

**Q.7.** Barter System of Exchange: Exchange of goods with goods without using money is called barter system of exchange. For example exchange of books with a bag. 02  
There are several problems with barter that we shall see below:

- Lack of coincidence of wants
- Lack of common measure of value
- Difficulty in store of value
- Difficulty in transfer of value
- Difficulty in differed payments
- Indivisibility of goods

**Q.7. Canons of taxation** 06

**(b)** Adam Smith described the following canons of taxation:

1. **Canon of Equality:** Equality does not mean equal rate of tax, it means tax rate should be according to paying ability of tax payer. Higher tax rate for high income group and lower tax rate for low income group.
2. **Canon of Certainty:** The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, and the amount to be paid should clear to the tax payer as well as tax collector.
3. **Canon of Convenience:** Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
4. **Canon of Economy:** Tax should be economical in terms of its collection. Tax policies should be as such to ensure maximum tax is collected and in the most economical manner.

**Total Marks 10**



## Winter Exam-2019 Solutions – Economics

**Q.8. (a)** Money Multiplier =  $1/RR = 1/10\% = 1/0.10 = 10$  02

**Q.8. (b)** The responsibilities of the State Bank of Pakistan as the central bank of the country are : 08

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

**Total Marks 10**

**Q.9. (a)** **Balance of Trade:** The difference of value of exports and the value of imports over the time is called Balance of Trade. If the value of exports is higher than the value of imports, it is called Trade Surplus or Favorable Balance. If the value of imports is greater than the value of exports, it is called Trade Deficit or Un-favorable Balance. In Balance of Trade only visible items are considered. 05

**Balance of Payment:** It is systematic record of economic transaction of a country with rest of the world over specific period of time. Inflow of funds is credit entry in BOP and outflow of funds is Debit entry in BOP. In BOP both visible and invisible items are considered. BOP split into three parts; 1) Current Account 2) Capital Account 3) Official Financing Account

BOP as whole, will always balance to zero however there may be deficit or surplus on each of the three accounts that together make up the BOP.

**Q.9. (b)** **Fixed Exchange Rate:** The rate is set at a fixed parity against one or more foreign currencies and the government agrees to buy or sell at this rate to stop fluctuations. 05

### **Advantages of fixed exchange rates:**

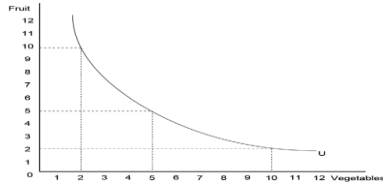
- Avoids damaging speculation against the currency.
- Promotes free-trade as importers and exporters are released from exchange rate risk.
- Forces governments to follow responsible economic policies at home.

**Total Marks 10**



## Winter Exam-2019 Solutions – Economics

- Q.10. 1. Indifference Curve:** It is a *curve* that represents all the combinations of goods that give the same satisfaction to the consumer.



- 2. Aggregate Demand:** The total amount of goods and services demanded within an economy at a given overall price level, and in a given time period.
- 3. Frictional Unemployment:** Frictional unemployment: is when people are searching for or are transitioning from one job to another. This can often just be temporary, and can take a while whilst people's skill sets adapt.
- 4. 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 (one year or less) and high liquidity.
- 5. Price Elasticity of Demand:** *Price Elasticity of Demand* (PED) is defined as the responsiveness of quantity demanded to a change in *price*.

$$PED = \frac{\% \text{change in Quantity Demanded}}{\% \text{change in Price}}$$

**Total Marks 10**

\*\*\*\*\*

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

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

First 100 units	100 x Rs.4 = Rs.400	1 mark
Next 25 units	25 x Rs.5 = Rs.125	1 mark
Last 3 units	3 x Rs.6 = <u>Rs.18</u>	1 mark
Total wages	<u>Rs.543</u>	1 mark

04

**Q.1. LABOUR COSTS (2 marks for definition and one mark for example)**

04

**(b)**

Labour means human effort or contribution in product development. Labour cost is the cost that is incurred paying personnel involved in product development directly or indirectly.

Labour cost is an important component of product cost. Total labour cost is split into direct and indirect labour. The purpose of so doing is planning and control.

**Direct Labour Cost:**

Direct labour cost is the cost of personnel that can be traced to the product.

Direct labour cost is absorbed in the product cost and it part of the prime cost. Basic pay of direct workers is direct labour cost

**Indirect labour cost( 2 marks for definition and one mark for example)**

Indirect labour cost is that cost which although incurred for the purpose of product development but cannot be traced directly to the product.

- a) Indirect labour cost is not part of prime cost but rather part of overheads
- b) Indirect workers are those workers who are not directly involved in the production process. These workers usually work in some service centre like canteen, stores, maintenance etc.
- c) Indirect labour cost includes: overtime premium, bonus payments, insurance contributions,
  - Overtime premium (overtime rate – basic pay rate)
  - Bonus payment
  - Allowances
  - Basic pay of indirect workers
  - Employer’s insurance contribution
  - Idle time
  - Sick pay

**Total Marks 10**

**Q.2.**  
**(a)**

Opening inventory	400	Rs.2.20	=880	1 mark
Issue	250	Rs.2.20	=550	1 mark
Receipt	500	Rs.2.50	=1,250	1 mark
Issue	150	Rs.2.20	=330	1 mark
	190	Rs.2.50	=475	1 mark
Receipt	400	Rs.2.70	1,080	1 mark
Issue	310	Rs.2.50	=775	1 mark
	290	Rs.2.70	=783	1 mark
			<u>2,913</u>	Issues (1 mark)
Closing inventory	110	Rs.2.70	=297	(1 marks)

10

*Contd.....*

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

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

Opening inventory	400	Rs. 2.20	880	(1 mark)	
Issue	(250)	Rs. 2.20	(550)	(1 mark)	
Receipt	500	Rs. 2.50	1,250	(1 mark)	
	650	Rs.2.43077	1,580		
Issue	(340)	Rs.2.43077	(826)	(1 mark)	
Receipt	400	Rs.2.70	1,080	(1 mark)	
	710	Rs.2.5831	1,834		
Issue	(600)	Rs.2.5831	(1,550)	(1 mark)	
Closing inventory	110	Rs.2.582	284	(1 mark)	

08

**Total cost of issues= Rs.2926 (1 mark)**

**Q.2.**  
**(c)**

Weighted average pricing will average earlier (lower) and later (higher) prices so production costs will be higher than if FIFO was used. So statement is true.

02

**Total Marks 20**

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

Input = 500 units

Normal loss 10%= 50 units

Normal good output= 500 – 50 = 450 units

**(i) Output 450 units (5 mark in total)**

05

Remember that no cost is allocated to normal loss and therefore good output bear the cost of normal loss.

So, cost per unit =  $\frac{\text{Costs incurred}}{\text{Expected output}} = \frac{\text{Rs. 5,400}}{450} = \text{Rs. 12 per unit}$

**Process account**

	Units	Rs.		Units	Rs.
Cost Incurred	500	5,400	Normal Loss	50	-
	-	-	Output	450	5,400
	<u>500</u>	<u>5,400</u>		<u>500</u>	<u>5,400</u>

**(ii)**

Expected output = 450 units

Actual output = 430 units value = 430 x Rs.12 = Rs. 5,160

Abnormal loss = 20 units value = 20 x Rs.12 = Rs. 240

05

**Process account**

	Units	Rs.		Units	Rs.
Cost Incurred	500	5,400	Normal Loss	50	-
	-	-	Abnormal Loss	20	240
	-	-	Output	430	5,160
	<u>500</u>	<u>5,400</u>		<u>500</u>	<u>5,400</u>



## Winter Exam-2019 Solutions – Cost Accounting

- (iii) Expected output = 450 units  
 Actual output = 460 units value = 460 x Rs.12 = Rs.5,520  
 Abnormal gain = 10 units value = 10 x Rs.12 = Rs.120

05

Process account					
	Units	Rs.		Units	Rs.
Cost Incurred	500	5,400	Normal Loss	50	-
Abnormal gain	10	120	-	-	-
-	-	-	Output	460	5,520
	510	5,520		510	5,520

Abnormal losses and abnormal gains are charged to income statement for the period.

- Q.3.** Losses with scrap value (2.5 mark per point)

05

- (b) Losses in process costing refer to spoiled or sub-standard output and sometimes these losses have some value; scrap value. If this is the case then treatment of losses in process account is as follows:

- As cost of **Normal Loss** units is charged to expected output, similarly any scrap value from sale of normal loss units is deducted from cost of expected output
- Proceeds from sale of **Abnormal Loss** units is set off against its cost and charged to P/L account

**Total Marks 20**

- Q.4.**  
(a)

Marginal Costing Profit Statement			
	X	Y	Total
	<i>Rs'000</i>	<i>Rs'000</i>	<i>Rs'000</i>
Sales	207	120	327
Less variable production cost of sales	(103.5)	(51.2)	(154.7)
	103.5	68.8	172.3
Less selling variable costs	(2.3)	(1.6)	(3.9)
Contribution	101.2	67.2	168.4
Less fixed costs: Production Administration			(105)
			(27)
Profit			36.4

05

- Q.4.**  
(b)

Marginal Costing Profit Statement			
	X	Y	Total
	<i>Rs'000</i>	<i>Rs'000</i>	<i>Rs'000</i>
Sales	207	120	327
Less full production cost of sales	(172.5)	(83.2)	(255.7)
	34.5	36.8	71.3
Over- absorption			5.0
			76.3
Less non-production overheads			
Variable selling overheads			(3.9)
Fixed administration overheads			(27.0)
Net profit			45.4

05

## Winter Exam-2019

### Solutions – Cost Accounting

**Working:**

Overhead-absorbed = $2,500 \times 30 + 1,750 \times 20$	110,000
Overheads incurred =	<u>(105,000)</u>
Over-absorption	<u>5,000</u>

**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>

**Winter 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**

\*\*\*\*\*

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

**Q.1.** 08

Provision for Depreciation Account for the year ended 31 August 2012					
		Rs.			Rs.
Jan 31	Disposal	16,800	Sept 1	Balance b/d	24,000
Aug 31	Balance c/d	<u>20,600</u>	Aug 31	Income statement	<u>13,400</u>
		<u>37,400</u>			<u>37,400</u>
			Sept 1	Balance b/d	20,600

08

Equipment Disposal Account for the year ended 31 August 2012					
		Rs.			Rs.
Jan 31	Equipment	28,000	Jan 31	Provision for depreciation	16,800
			Jan 31	Bank	10,000
			Aug 31	Income statement	<u>1,200</u>
		<u>28,000</u>			<u>28,000</u>

**Total Marks 16**

**Q.2.** 10

**(a)**

Karachi Branch			
Trading Account and Profit and Loss Account			
	Rs.		Rs.
Opening Stock	220,000	Sales	1,200,000
Goods received by Head Office	1,100,000	Closing Stock	360,000
Expenses	45,000		
<b>Net Profit</b>	<u>195,000</u>		
	<u>1,560,000</u>		<u>1,560,000</u>

**Q.2.** Stock reserve in respect of unrealized profit: 05

**(b)** = 360,000 x (20/120) = **Rs. 60,000**

**Total Marks 15**

**Q.3.** As per the applicable standard relating to revenue recognition, the following conditions must be satisfied which are as follows: 07

- (a)**
1. Risks and rewards have been transferred from the seller to the buyer.
  2. The seller does not have control over the goods sold.
  3. The collection of payment from goods or services is reasonably assured.
  4. The amount of revenue can be reasonably measured.
  5. Costs of revenue can be reasonably measured.

**(Answers can vary as appropriate)**

**Q.3.** 05

**(b)**

Revenue for the year ended 30 June 2001	
	Rs. 000
Cumulative revenue (60% of total)	15,000
Less: recognized in previous years:	<u>(7,000)</u>
<b>Revenue for the year</b>	<u><b>8,000</b></u>

**Total Marks 12**

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

Q.4.

Bilal and Shoaib		
Appropriation Account for the year ended 30 April 2009		
	Rs.	Rs.
Net Profit		20,500
Interest on drawings:		
Bilal	240	
Shoaib	<u>800</u>	<u>1,040</u>
		<u><u>21,540</u></u>
Interest on capital:		
Bilal	2,850	
Shoaib	1,200	
Salary- Shoaib	12,000	
Share of Profit:		
Bilal	2,745	
Shoaib	<u>2,745</u>	<u><u>21,540</u></u>

**Total Marks      12**

Q.5. Closing Inventory = 500 + 1,500 – 1,400 = 600 units

(a) Computation of inventory = 600 x Rs. 26 = Rs. 15,600

05

Q.5.

(b)

Ahsan Private Limited	
Cost of Goods Sold for the month of July using FIFO method	
	Rs.
Opening Inventory: 500 units @ Rs. 20	10,000
Add: 800 units @ Rs. 24	19,200
Add: 700 units @ Rs. 26	<u>18,200</u>
Total cost of units available for sale	<u><u>47,400</u></u>

05

**Total Marks      10**

Q.6.

Accounts to be Debited		Accounts to be Credited	
	Rs.		Rs.
Bank	30,000	Capital Yasin	30,000
Goodwill	15,000	Capital Zia	30,000
motor vehicle	15,000	-	-

**Total Marks      05**

Q.6.

**Statement of Profit or Loss and other Comprehensive Income**  
**For the year ended 30<sup>th</sup> June 2001**

15

	Rs'000
Revenue	100,926
Cost of sales (W1)	<u>(67,051)</u>
Gross Profit	33,875
Distribution costs (W2)	(7826)
Administrative expenses (W3)	<u>(11,761)</u>
Profit from operations	14,288
Finance costs (W4)	<u>(1,000)</u>
Profit before tax	13,288

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

Income tax expense	(2,700)
Profit for the year	10,588
Other comprehensive income for the year:	
Surplus on revaluation (W5)	<u>14,000</u>
Total comprehensive income for the year	<u>24,588</u>

**Statement of Financial Position as at 30<sup>th</sup> June 20X1**

	Rs'000
Non-current assets	
Property, plant and equipment (W6)	119,500
Current assets	
Inventory	9,420
Trade and other receivables (W7)	20,800
Cash and cash equivalents	<u>2,213</u>
Total assets	<b><u>151,933</u></b>
Equity	
Share Capital	50,000
Share premium	25,000
Retained earnings (W8)	20,508
Revaluation reserve (Rs.10,000+Rs.14,000(W5))	24,000
Non-current liabilities	
5% bank loan	20,000
Current liabilities	
Trade and other payables (W9)	9,725
Tax payable	<u>2,700</u>
Equity and liabilities	<b><u>151,933</u></b>

**(W1) Cost of sales**

	Rs.000
Opening inventories	7,280
Purchases	67,231
Less closing inventories	(9,420)
Dep'n P&M (Rs.2,800 (W4) × 70%)	1,960
	<u>67,051</u>

**(W2) Distribution costs**

	Rs.000
Distribution costs	8,326
Dep'n P&M (Rs.2,800 (W4) × 20%) 560	
Advertising prepayment (Rs.2,120 × 6/12)	(1,060)
	<u>7,826</u>

**(W3) Administrative expenses**

	Rs.000
Administrative expenses	7,741
Depreciation Buildings (W4)	3,200
Dep'n P&M (Rs.2,800 (W4) × 10%)	280
Irrecoverable debt	540
	<u>11,761</u>

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**Solutions – Financial Accounting**

**(W4) Finance costs**

	Rs.000
Finance costs	0
Accrual for loan interest (Rs.20,000 × 5%)	1,000
	1,000

**(W5) Revaluation**

	Rs.000
Revalued amount	54,000
CV	40,000
Revaluation gain	14,000

**(W6) PPE**

	Rs.000
Land and buildings cost	120,000
Revaluation	14,000
Accumulated depreciation	(22,500)
Depreciation charge	
(( $\$120,000 - \$40,000$ ) × 4%)	(3,200)
Plant and equipment cost	32,000
Accumulated depreciation	(18,000)
Depreciation charge	
(( $\$32,000 - \$18,000$ ) × 20%)	(2,800)
	119,500

**(W7) Trade and other receivables**

	Rs.000
Trade and other receivables	20,280
Irrecoverable debt w/off	(540)
Advertising prepayment (W2)	1,060
	20,800

**(W8) Retained earnings**

	Rs.000
Retained earnings	12,920
Profit per P/L	10,588
Dividends	(3,000)
	20,508

**(W9) Trade and other payables**

	Rs.000
Trade and other payables	8,725
Accrual for loan interest (W4)	1,000
	9,725

**Total Marks    30**



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

- Q.1. Diagonal communication** may occur in the following situations: 03
- (a)
1. A cross-team communication when coordinating projects
  2. When innovating new ideas or problem solving
  3. To by-pass blockages in the usual vertical reporting line such as when a line manager is on holiday, or when technical input is required outside the usual sphere of expertise.

- Q.1. (The answer may be shorter for 5 marks)** 05
- (b)

**Chain Network:** In the chain network, information is passed straight up or down the formal chain of command. One person passes information to others up/ down within the line of hierarchy, who then pass it further up/down their own chain of authority. It allows only vertical movement and is strictly hierarchical. Chain networks have a leader who decides as to what messages are to be sent and how these messages are to be communicated. Here each member communicates with the person above and below. It reflects upward and downward communication and exists in a vertical hierarchy.

**Y Network:** Y network can be assumed as a variation of chain network; here messages are communicated vertically, between the subordinates and supervisors in the hierarchical arrangements. The information from the leader is shared simultaneously through two channels, which in turn pass on the information outwards. This arrangement can disseminate the information faster than the chain network.

**Total Marks 08**

- Q.2. Confidential vs. non-confidential:** Sensitive information that is only intended for the receiver should be marked as confidential and not communicated to other parties. For example payroll data and client data are usually confidential to the sender and receiver.
- a

There are often laws that an organization must abide by to protect third parties and employees from the misuse of personal and sensitive data.

Professionals such as accountants, lawyers and doctors owe their clients a duty of confidentiality and must ensure that communication does not breach that duty.

**Total Marks 04**

- Q.3.** To achieve the optimum benefit with the effective use of visual aids in a presentation, here are certain guidelines:

**(The examinee may write any 4 of these given)**

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

**Total Marks 05**

Contd.....





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

**Q.4. Concrete messages demonstrate the following attributes:**

- (i) Concrete messages are supported with specific facts and figures.
- (ii) Use precise statements instead of vague words.
- (iii) Concrete messages tend not to be misinterpreted as they are so specific and clear.
- (iv) Concreteness strengthens the confidence of both the sender and receiver.
- (v) Concrete messages convey professionalism and help towards building the reputation of the sender and the organization they represent.
- (vi) Using vivid and image-building words can help make the message more compelling and impactful.

**Total Marks 05**

**Q.5. Axiom: Defining relationships by punctuation**

05

- (a) This axiom describes how each person perceives (or punctuates) a communication sequence. Both the sender and receiver of information structure the communication flow differently and therefore interpret their own behavior during communication as merely a reaction on the other's behavior.

To punctuate a communication means to interpret an on-going sequence of events by labeling one event as the cause and the following event as the response. This means that each party in the communication thinks the other one is the cause of a specific behavior.

**Q.5. Interpersonal communication covers extremes:**

03

- (b) Interpersonal communication ranges from fairly impersonal at one end to extremely personal at the other end. At the impersonal end of the continuum, one might think of a simple conversation between people who, we would say, really don't know each other—e.g. a traffic warden and a driver. At the highly personal end is the communication that takes place between people who are emotionally interconnected—a father and son or best friends.

**Interpersonal communication exists in diverse forms:**

03

Mostly, interpersonal communication takes place in person face-to-face e.g. talking with other friends before class, interacting with family over lunch, etc. But, with the passage of time, another dimension has made inroads in our lives.

Today much conversation takes place online. Since these online arrangements make it easy to communicate internationally hence they provide an excellent exposure to other cultures, other ideas, and other ways of communicating, and they are a good introduction to intercultural communication.

**Total Marks 11**

**Q.6. Disadvantages of electronic communication (5 required)**

05

- (a)
1. It has given rise to social depression.
  2. It is blamed to have created isolation.
  3. It creates a computer-generated virtual world and its undue use disconnects you from reality.
  4. The volume of telecommunication information is growing at such a fast rate that business people are unable to grip it within relevant time limit.
  5. Electronic communication requires huge outlay for infrastructural development. Frequent changes in technology also call for further investment.
  6. Data may not be recovered due to system error or fault with the technology. Hence required service might get delayed.

*Contd.....*



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

**Q.6. Advantages of online discussion boards (5 Required)**

05

- (b)
1. Enhances ability to express and see differing views and opinions on a diverse range of topics.
  2. Forums produce a discussion environment by saving any information posted on a certain subject for others to view at any time, thus participants can have high-quality discussions since they would have enough time to think about and research the topic at hand.
  3. Freedom of speech can be exercised, and people can write in any form they want.
  4. Owing to continuous posting, users improve their writing skills and habits, and become more alert, responsive and well-informed of others' ideas.
  5. Online societies can be made, people would frequently return to the site to see what has happened lately to certain topics of interest making it more popular and active. Good relations can be made between people through active comments and posts.
  6. If the forum is successful and is meaningful for the user, then registered members will not treat your e-mails and messages as junk, but rather as opportunities.

**Total Marks 10**

**Q.7. (Pie charts use 'pie slices' to show relative sizes of data. Pie chart represents a circular graph that is divided into parts to show the proportion in numerical terms. The arc length of each slice is proportional to the quantity it represents. It shows relative sizes of different categories and the percent that each category adds to the whole.)**

The question requires Pie chart drawn with approximate measurements to represent given data.

**Total Marks 07**

**Q.8. An interview can be regarded as a formal talk between two people/parties i.e. the interviewer and the interviewee. The interviewer asks the interviewee to obtain needed information from the interviewee. The required information might include abilities, background, attitude, expertise etc. It is a process that helps the interviewer to evaluate the interviewee.**

Interview can be conducted for multiple purposes, some of them are:

1. For getting a job, where the company's representative conducts the interview of the job seeker,
2. To communicate the organization's norms and job requirements to the newly inducted employee,
3. Employer might interview bright and competent employee in the context of some existing problem to gain his/her responses,
4. The employee might be interviewed in order to evaluate his/her job performance and discuss his/her strengths and weaknesses.

**Total Marks 06**

**Q.9. (The answer may be shorter and more precise)**

06

**(a) Examples of the use of covering letters in business include: (3 required)**

1. A cover letter being used to accompany a report describing why the report has been sent. The cover letter would also list all the accompanying documents such as sales order confirmations, bank support letters and market reports that form an integral part of the business communication.
2. Attaching a cover letter to a consignment of damaged stock that is being returned to the supplier. The cover letter would explain which specific order number the goods relate to, the date they were originally delivered and details of the damage identified. The cover letter would also describe the contents and specify the quantity of each type of good that is included in the consignment.
3. A cover letter accompanying curriculum vitae (CV) sent in response to a work opportunity. The letter would provide additional information on skills and experience and explain which job application the CV specifically relates to.
4. A covering letter is used to accompany a proposal for work.

*Contd.....*



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

**Q.9.** The Examinee may write **AIDA approach**, in his/her own words, to secure full marks. AIDA Stands for Attention, Interest, Desire and Action . **OR**  
The answer may be written from the details given below:

1. Get the reader's attention by mentioning benefits of the message to the reader.
2. Build the reader's interest by emphasizing relevance of the message to the reader.
3. Increase the reader's desire by supporting the viewpoints stated in the message with relevant evidence. Attempt to convince the reader to make the change as suggested in the message.
4. Motivate the reader to take action and state the positive result of the action. The action should have clarity and be easy to adopt.
5. Present emotional and logical appeals in a balanced manner. Substantiate the appeal by presenting facts and evidence for complex ideas and recommendations.

**Total Marks 10**

- Q.10.**
- The précis must be of 120-125 words.
  - The precis must be written in one paragraph only.
  - The idea should be conveyed very precisely.
  - Copying sentences or phrases from the passage is not acceptable; the answer should be original and written in own words.
  - It should reflect the Intelligence of the Precis-writer.
  - Inclusion of Statistical Information is required.
  - The precis must correspond with the balance Proportion of ideas and information in the passage.

**Total Marks 10**

**Q.11.** The format of a memo:

The headings: To, From, Subject and Date

The content goes after the header. The format of a memo is simple, since it has neither a salutation, nor a complimentary close.

**Total Marks 10**

**Q.12.** The report may take the format of a memo or a letter.

An analytical report must include Recommendations.

It should contain the following sections:

1. Introduction or Term of reference.  
It should describe:
  - Who ordered the report?
  - What is the purpose of the report?
2. Methodology: It is the description of the procedure adopted for the survey or investigation of the matter.
3. Findings: The findings section should simply present information gathered from the investigation
4. Conclusion: Conclusion is basically a summary of a problem written in the Findings section.
5. Recommendations: It is often the last section of a report. The recommendations are given in the same order as the conclusions have, and are numbered for easy reference.

**Total Marks 14**



## Winter Exam-2019 Solutions – Financial Reporting

- Q.1.** a) The cost of brand should be recognized as an expense because under IAS-38 management cannot demonstrate how and when this will generate economic benefits. The internally generated asset should satisfy the under mentioned six criteria before being recognized as intangible asset.
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - its intention to complete the intangible asset and use or sell it;
  - its ability to use or sell the intangible asset;
  - how the intangible asset will generate probable future economic benefits, among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
  - the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
  - its ability to measure the expenditure attributable to the intangible asset during its development reliably.
- b) The cost incurred on the development of software should be recognized as an asset, as it has satisfied the above mentioned criteria and should be amortized over its useful life.
- c) This expense seems to be incurred on research rather than development therefore, should be expensed out instead of being capitalized.

**Total Marks 15**

**Q.2.**

Date	Description	Debit	Credit
01-07-2018		<b>Rs.</b>	<b>Rs.</b>
	Right to use asset	1,507,890	
	Lease liability		1,387,890
	Bank (150,000 – 30,000)		120,000
01-10-2018	Interest expense	41,637	
	Lease liability		41,637
	Lease liability	150,000	
	Bank		150,000
01-01-2019	Interest expense	38,389	
	Lease liability		38,389
	Lease liability	150,000	
	Bank		150,000
01-04-2019	Interest expense	35,037	
	Lease liability		35,037
	Lease liability	150,000	
	Bank		150,000
30-06-2019	Interest expense	31,589	
	Lease liability		31,589
	Depreciation	502,630	
	Accumulated depreciation		502,630
	1,507,890/3		
	Right to use asset	5,880	
	Lease liability		5,880



## Winter Exam-2019 Solutions – Financial Reporting

**W – 1**

### Lease Repayment Schedule

Date	Opening balance	Interest	Payment	Closing balance
	Rs.	Rs.	Rs.	Rs.
01-07-2018	1,387,890	41,637	(150,000)	1,279,527
01-10-2018	1,279,527	38,389	(150,000)	1,167,916
01-01-2019	1,167,916	35,037	(150,000)	1,052,953
01-04-2019	1,052,953	31,589	--	1,084,542
30-06-2019				5,880
30-06-2019				1,090,422

### W – 2 - Initial measurement of Lease Liability and Right to use asset.

PV of Future payments = Annuity Fact x Lease payments  
 = 9.25 x 150,000 = 1,387,890

Right to use asset = 150,000 + 1,387,890 – 30,000 = 1,507,890

### W – 3 - Revised PV of Lease Liability

PV of lease liability = 180,000 + 6.06 x 180,000 = 1,090,422

**Total Marks 15**

**Q.3.**

	<b>Rs. (000)</b>	<b>Rs. (000)</b>
Revenue (W – 1)		99,900
Cost of sales		<u>(35,075)</u>
Gross profit		64,825
Operating expenses		<u>(45,600)</u>
Operating profit		19,225
Finance cost	(4,050)	
Dividend income	<u>2450</u>	<u>(1,600)</u>
Profit before tax		17,625
Tax expense (585+4,702.5)		<u>(5,287.5)</u>
Profit after tax		<u>12,337.5</u>

### W – 1 - Revenue

	<b>Rs. (000)</b>	<b>Rs. (000)</b>
Balance		100,500
Effect of goods on sale or return basis	1250x40%	(500)
Effect of services to be performed in future	(150/3)x2	(100)
		<u>99,900</u>

### W – 2 - Cost of revenue

	<b>Rs. (000)</b>	<b>Rs. (000)</b>
Balance		35,500
Effect of goods on sale and return basis	500x20/80	
	500-125	(375)
Effect of depreciation (500/60)x6		(50)
		<u>35,075</u>



## Winter Exam-2019 Solutions – Financial Reporting

### W – 3 - Finance cost

	Rs. (000)	Rs. (000)
Balance		4,550
Capitalization of finance cost		(500)
		4,050

### W – 4 - Tax expense

	Rs. (000)	Rs. (000)
<b>Current tax</b>		
Profit before tax		17,625
Add: accounting depreciation (14,000+50)	14,050	14,050
Less: Tax Depreciation	15,500	
Interest Expense	500	(16,000)
		15,675
Tax @ 30%		4,702.5
<b>Deferred tax</b>		
Opening deferred tax		300
Expense for the year		585
Closing deferred tax (2,500+450)x30%		885

**Total Marks 15**

**Q.4.**

	Rs. (000)	Rs. (000)
<b>Goodwill</b>		
Cost of investment (50x0.6x35)	1,050	
Fair value of non-controlling interest (50x0.40x25)	500	1,550
Less: Fair value of net assets acquired		
Share capital	500	
Share premium	200	
Pre-acquisition reserves	435	(1,135)
<b>Goodwill</b>		<b>415</b>
<b>Consolidate retained earnings</b>		
Brought forward balance		1,250.0
Profit for the year		375.0
Share of SL brought forward reserves	246x0.6	(147.6)
SL share of profit for the year	17x0.6	10.2
		<b>1,487.6</b>
<b>Non-controlling interest (NCI)</b>		
Fair value of NCI		500
Share of loss in brought forward earnings		(98.4)
Share of profit for the year	17x0.4	6.8
		<b>408.4</b>



## Winter Exam-2019 Solutions – Financial Reporting

<b>W – 1 Subsidiary retained earnings</b>	<b>Pre</b>	<b>Post</b>
Brought forward balance	135	100
Fair value gain	300	--
Extra depreciation	--	(120)
Un-realized profit on opening stock		(60)
Impairment loss on goodwill – opening	--	(166)
	<b>435</b>	<b>(246)</b>
<b>W – 3 Profit for the year</b>		
Profit for the year		215
Un-realized profit on opening stock		60
Un-realized profit on closing stock		(90)
Extra depreciation		(60)
Impairment loss on goodwill – closing		(83)
Intangible asset – de-recognized		(25)
		<b>17</b>

**Total Marks 25**

- Q.5.**
- a) The company should recognize Rs. 1.2 million as current tax prior year in its financial as an expense and provision.
  - b) The loan will remain current liability as the restructuring agreement has been signed after the reporting date. However, being material transaction this fact must be disclosed in the financial statements.
  - c) The company should recognize it as sales return and credit note should be issued to the debtor. [Sales return and sales tax refundable debit with Rs. 427,350 and 72,650 respectively and credit would be given to customer of Rs. 500,000.
  - d) IAS 2 (Inventory) requires that inventory should be recognized at lower of cost or net realizable value. As the cost of free samples is nil therefore, free samples will not be measured at Rs. 100,000.
  - e) The revenue should have been booked at present value being the fair value of goods sold therefore, a reversal will be recognized of Rs. 30,420 [150,000 – 119,580]. The reversal entry will be credit customer account and debit revenue. The un-winding interest income will be recognized of Rs. 14,350 and 16,070 in first and second year respectively.

**Total Marks 15**

**Q.6.**

<b>Tax Expense</b>	<b>Rs. (000)</b>	<b>Rs. (000)</b>
Current tax		
Current year	(29,464)	
Prior year	(550)	
Deferred tax	(6,999)	(37,013)
<b>Reconciliation</b>		
Tax expense		37,013
Tax on accounting profit	125,000x29%	36,250
Tax effect of: -		
Permanent add backs	400x29%	116
Current tax prior year		550
Effect of change in tax rate		97
		<b>37,013</b>



## Winter Exam-2019 Solutions – Financial Reporting

<b>Revaluation surplus</b>		
Surplus recognized		5,000
Deferred tax	(1,450)	
Transfer to retained earnings net of deferred tax	(355)	(1,805)
Closing balance		3,195

### W-1 - Calculation of Current Tax

	Rs. (000)	Rs. (000)
Accounting profit for the year		125,000
Add:-		
Accounting depreciation (75,000+5,000)/10	8,000	
Advance income (5,000 - 2,200)	2,800	
Expenses disallowed	1,000	11,800
Less:		
Tax depreciation (50,000x25%)	12,500	
Accrued expenses (12,500 -10,000)	2,500	
Expense allowed	200	(15,200)
Taxable Profit		121,600
Un-used tax loss brought forward		(20,000)
Net taxable profit		101,600
Current tax @ 29%		29,464

### W-2 - Calculation of deferred tax

	Carrying value	Tax base	Taxable difference	Deductible difference
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
<b>Opening deferred tax</b>				
Un-used tax losses	--	20,000	--	20,000
Property, plant and equipment	75,000	50,000	25,000	--
Accrued expenses	12,500	--	--	12,500
Advance income	2,200	--	--	2,200
			25,000	34,700
Net deductible difference				9,700
Deferred tax asset@ 30%				2,910
<b>Closing deferred tax</b>				
Property, plant and equipment	72,000	37,500	34,500	
Accrued expenses	10,000	--	--	10,000
Advance income	5,000	--	--	5,000
Expenses to be allowed	--	400	--	400
			34,500	15,400
Net taxable differences			19,100	
Net deferred tax @ 29%			5,539	





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

			<b>Debit</b>	<b>Credit</b>
Deferred tax for the year				
Opening deferred tax asset			2,910	
Charged to revaluation surplus				1,450
Effect of rate				97
Deferred tax expense for the year				6,902
Closing deferred tax liability			5,539	
			8,449	8,449

**Total Marks**

**15**

\*\*\*\*\*



## Winter Exam-2019

### Solutions – Management Accounting

Q.1.  
a

Period	Cash Flow	Discount Factor @ 15%	Present Value	
0	(700,000)	1.000	(700,000)	1
1	(1,000,000)	0.870	(869,565)	1
2	600,000	0.756	453,686	0.5
3	600,000	0.658	394,510	0.5
4	600,000	0.572	343,052	0.5
5	600,000	0.497	298,306	0.5
<b>Net Present Value</b>			<b>(80,011)</b>	<b>1</b>

05

Q.1.  
b

Period	Cash Flow	Discount Factor @ 15%	Present Value	
0	(700,000)	1.000	(700,000)	0.5
1	(1,000,000)	0.893	(892,857)	0.5
2	600,000	0.797	478,316	0.5
3	600,000	0.712	427,068	0.5
4	600,000	0.636	381,311	0.5
5	600,000	0.567	340,456	0.5
<b>Net Present Value</b>			<b>34,294</b>	<b>0.5</b>

05

$$\text{IRR} = 12\% + 34,294 / (34,294 - (-80,011)) \times (15 - 12)\% \quad 0.5$$

$$\text{IRR} = 12\% + 34,294 / (114,305) \times 3\% \quad 0.5$$

$$\text{IRR} = 12.9\% \quad 0.5$$

Q.1.  
c

Period	Cash Flow	Discount Factor @ 15%	Present Value	
0	(700,000)	1.000	(700,000)	0.5
1	(1,000,000)	0.909	(909,091)	0.5
2	600,000	0.826	495,868	0.5
3	600,000	0.751	450,789	0.5
4	600,000	0.683	409,808	0.5
5	600,000	0.621	372,553	0.5
<b>Net Present Value</b>			<b>119,927</b>	

03

Q.1.  
d

Period	Cash Flow	Balance Investment	
0	(700,000)	(700,000)	1
1	(1,000,000)	(1,700,000)	
2	600,000	(1,100,000)	
3	600,000	(500,000)	
4	600,000	100,000	

02

$$= 3 + 500,000 / 600,000$$

$$\text{3.83 Years} \quad 1$$

**Total Marks 15**



## Winter Exam-2019

### Solutions – Management Accounting

Q.2.	<u>Alash</u>		<u>Alash plus</u>	
Selling price per unit Rs.	1.25	1	3.25	1
Total Sales Rs. (100,000 x 1.25 )	125,000	2	( 60,000 x 3.25 ) 195,000	2
Incremental post-separation processing cost				
		Fixed	20,000	2
		Variable	30,000	2
		( 100,000 x 0.3)	50,000	
Sales minus post-separation (further processing) costs	125,000	2	245,000	2
It is Rs. 20,000 more profitable to convert Alash into Alash plus.				6

**Total Marks 10**

- Q.3.** Total time saving= 4 days **02**
- (a)** Time savings x Daily average collection = Reduction in cash balances achieved  
4 x Rs. 500,000 = Rs. 2,000,000 **03**
- Q.3.** 5% x Rs. 2,000,000 = Rs. 100,000 **05**
- (b)**
- Q.3.** Since the opportunity cost of the present system (Rs. 100,000) exceeds the cost of the lockbox system (Rs. 75,000), the system should be initiated. **05**
- (c)**

**Total Marks 15**

- Q.4.** Management accounting is an integral part of management. It requires the identification, generation, presentation, interpretation and use of relevant information to:
- Inform strategic decisions and formulate business strategy.
  - Plan long, medium and short run operations.
  - Determine capital structure and fund that structure.
  - Design reward strategies for executives and shareholders.
  - Inform operational decisions.
  - Control operations and ensure the efficient use of resources.
  - Measure and report financial and non-financial performance to management and other stakeholders.
  - Safeguard tangible and intangible assets.
  - Implement corporate governance procedures, risk management and internal controls.

**Total Marks 05**



## Winter Exam-2019

### Solutions – Management Accounting

**Q.5.**  
a

	Current situation (Rs.'000)	Proposed situation (Rs.'000)	
<b>Contribution Margin</b>			<b>10</b>
(Rs. 30 m x 25%) (Rs. 30 m 1.10 = Rs. 33 m x 25%)	7,500	8,250	2
<b>Less: Bad Debts Cost</b>			
(Rs. 30 m x 2%) (Rs. 33 m x 0.5%)	(600)	(165)	2
<b>Less: Discount Cost</b>			
(Rs. 33 m x 50% x 1%)	---	(165)	2
<b>Less: Financing Cost of Investment in Debtors</b>			
(Rs. 5 m x 6%) (Rs. 2.80 m x 6%)	(300)	(168)	2
	<b>6,600</b>	<b>7,752</b>	
<b>Recommendation:</b> Company should offer discount to customers because it will increase profitability by Rs. 1.152 million.			2
(W – 1) Revised investment in debtors			2
= (Rs. 33 m x 50% x 10/360) + (Rs. 33 m x 30% x 45/360)			
+ (Rs. 33 m x 20% x 60/360) = Rs. 2.80 m			

**Q.5.**  
b

<b>Factoring</b>			<b>05</b>
Factoring is an outsourcing arrangement in which company obtains services of third party i.e., factor company for administration and collection of debtors. In case of factoring, credit control department is closed.			<b>02</b>
<b>Services provided by factor company</b>			
Factor company provides three major services:			
(i) <b>Administration:</b> In this service factor company keeps records of debtors and collects outstanding amount on due date.			<b>01</b>
(ii) <b>Financing:</b> In addition to administration of debtors, sometimes Factor Company also provides advance or loan against outstanding amount of debtors and charges interest on that advance.			<b>01</b>
(iii) <b>Credit Insurance:</b> In insurance service, factor company bears all the bad debts cost against some extra fee. This factoring arrangement is also known as non-recourse factoring.			<b>01</b>

**Total Marks 15**

**Q.6. Margin of safety**

- a Margin of safety is the maximum amount by which actual sales can be lower than budgeted sales without incurring a loss for the period. It can be measured as the difference between:
- The budgeted sales (in units or Rs.) and
  - The break-even amount of sales (in units or Rs.)

**02**



## Winter Exam-2019

### Solutions – Management Accounting

**Q.6. Net profit for June 2018**

**03**

**b**

	Rs. m	Rs. m	
Sales Revenue		300 m	0.50
Less: Variable Cost ( <b>Balancing figure</b> )		(240) m	0.50
= Contribution Margin ( <b>20% x Rs. 300 m</b> )		60 m	1
<u>Less: Total Fixed costs</u>			
Fixed Factory Overheads Cost	20 m		0.50
Fixed Administration Cost	25 m		0.50
		(45) m	
= Net profit		15 m	

**Q.6. Net Profit for June 2019**

**04**

**c**

	Rs. m	Rs. m	
Sales Revenue( <b>Rs. 300 m x 0.95 x 1.10</b> )		313.50 m	1
Less: Variable Cost ( <b>Rs. 240 m x 0.95 x 1.04</b> )		(237.12) m	1
= Contribution Margin		76.38 m	
<u>Less: Total Fixed costs</u>			
Fixed Factory Overheads cost( <b>Rs. 20 m x 1.10</b> )	22 m		1
Fixed Administration Cost	25 m		1
		(47.00) m	
= Net profit		29.38 m	

**Q.6. Contribution Margin Ratio for June 2019**

**02**

**d**

Contribution Margin Ratio = Contribution ÷ Sales Revenue x 100			1
Contribution Margin Ratio = Rs.76.38m ÷ Rs. 313.50m x 100 = 24.36%			1

**Q.6. Breakeven Sales Revenue for June 2019**

**02**

**e**

Breakeven Sales Revenue = Total Fixed costs ÷ Contribution Ratio			1
Breakeven Sales Revenue = Rs. 47 m ÷ 24.36% = Rs. 192.94 m			1

**Q.6. Margin of Safety Ratio for both years**

**04**

**f**

<b><u>Breakeven sales revenue for June 2018</u></b>			
<b>Breakeven Sales Revenue = Total Fixed costs ÷ Contribution Ratio</b>			
Breakeven Sales Revenue = Rs. 45 m ÷ 20% = Rs. 225 m			1
<b><u>Margin of safety ratio for June 2018</u></b>			
<b>MOS Ratio = (Sales Revenue – Breakeven sales Revenue) x 100</b>			
<b>Sales Revenue</b>			
MOS Ratio = (Rs. 300 m – Rs. 225 m) x 100 = 25%			1
	Rs. 300 m		
<b><u>Margin of Safety Ratio for June 2019</u></b>			
<b>MOS Ratio = (Sales Revenue – Breakeven sales Revenue) x 100</b>			
<b>Sales Revenue</b>			
MOS Ratio = (Rs. 313.5 m – Rs. 192.94 m) x 100 = 38.46%			1
	Rs. 313.5 m		



## Winter Exam-2019

### Solutions – Management Accounting

**Q.6. Sales Revenue to Achieve Desired Profit**

**03**

**g**

$$\text{Sales Revenue} = \frac{(\text{Total Fixed costs} + \text{Desired profit before tax})}{\text{Contribution Ratio}} \quad 1$$

$$\text{Desired profit before tax} = \text{Rs. } 15 \text{ m} \div 0.75 = \text{Rs. } 20 \text{ m} \quad 1$$

$$\text{Sales Revenue} = (\text{Rs. } 47 \text{ m} + \text{Rs. } 20 \text{ m}) \div 24.36\% = \text{Rs. } 275.04 \text{ m} \quad 1$$

**Total Marks 20**

**Q.7. Skilled Labour**

Guaranteed paid hours ( <b>Rs. 450 ÷ Rs.15 per hour</b> )	30 hours	0.5
---	----------	-----

Less: Current working hours	(24) hours	
	6 hours	

= Spare hours per worker	6 hours	
	24 hours	

Total spare hours of 4 workers ( <b>6 hours x 4 workers</b> )	24 hours	0.5
---	----------	-----

For special order, 20 hours of skilled labor are needed and there will be no incremental cost so relevant cost would be NIL. 1

**Semi – skilled Labour**

The semi -skilled workforce is currently fully utilized so there are two alternative options:

i. Hiring new labor at Rs. 12 per hour		1
--	--	---

ii. Overtime payment at cost of Rs. 15 per hour		1
---	--	---

Lower of hiring cost and overtime payment cost will be relevant cost. So here hiring is beneficial and relevant labor cost of 50 hours will be: 1

$$\text{Labour cost} = \text{Rs. } 12 \text{ per hour} \times 50 \text{ hours} = \text{Rs. } 600$$

**Total Marks 05**

**Q.8.**

#### Hotel One

##### Budgeted profit and loss account

##### For the six month ended 31<sup>st</sup> December, 2019

	Rs.	
<b>Revenue of hotel</b>		
High season revenue:		
Offline room sales ( <b>Rs. 110 per night per room x 93 nights x 72 rooms</b> )	736,560	1
Online room sales ( <b>Rs. 44 per night per room x 93 nights x 18 rooms</b> )	73,656	1
Additional spending ( <b>Rs. 40 per night per room x 93 nights x 90 rooms</b> )	334,800	1
Low season revenue:		
Offline room sales ( <b>Rs. 95 per night per room x 91 nights x 45 rooms</b> )	389,025	1
Online room sales ( <b>Rs. 38 per night per room x 91 nights x 20 rooms</b> )	691,60	1
Additional spending ( <b>Rs. 40 per night per room x 91 nights x 65 rooms</b> )	236,600	1
= Total sales revenue of hotel	1,839,801	



## Winter Exam-2019

### Solutions – Management Accounting

**Less: Variable costs**

High season:

Variable cost of rooms (Rs. 17 per night per room x 93 nights x 90 rooms)	(142,290)	1
Additional spending (Rs. 26 per night per room x 93 nights x 90 rooms)	(217,620)	1

Low season:

Variable cost of rooms (Rs. 17 per night per room x 91 nights x 65 rooms)	(100,555)	1
Additional spending (Rs. 26 per night per room x 91 nights x 65 rooms)	(153,790)	1

Less: Fixed costs (Rs. 40,000 per month x 6 months) (240,000) 1

Less: Cost of additional staff (Rs. 150 per night x 93 nights) (13,950) 1

= Budgeted net profit of hotel 971,596

**(W1) Total number of nights in six months**

<u>Months</u>	<u>July</u>	<u>August</u>	<u>December</u>	<u>Total nights</u>	
High season	31	31	31	93 nights	0.50
<u>Months</u>	<u>September</u>	<u>October</u>	<u>November</u>		
Low season	30	31	30	91nights	0.50

**(W2) Occupied (sold) rooms in six months**

Total number of rooms = 90 rooms

**High season:**

Offline = 90 rooms x 80% = 72 rooms 0.50

Online = 90 rooms – 72 rooms = 18 rooms 0.50

**Low season:**

Offline = 90 rooms x 50% = 45 rooms 0.50

Online = 90 rooms – 45 rooms = 45 rooms available but maximum 20 rooms can be sold. 0.50

**Total Marks 15**

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