



**Corporate Sector**

**Model  
Solutions**

**Summer Exam-2017**

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# **Business Laws**

**(Level-2)**



## Summer Exam-2017 Solutions – Business Laws

### Ans.1 SEC 252

(1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting:

[Provided that an auditor or auditors appointed in a general meeting may be removed before conclusion of the next annual general meeting through a special resolution.]

(2) Appointment of a partnership by the firm name to be the auditors of a company shall be deemed to be the appointment of all the persons who are partners in the firm at the time of appointment.

(3) The first auditor or auditors of a company shall be appointed by the directors within sixty days of the date of incorporation of the company; and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting:

Provided that-

a) the company in a general meeting may remove any such auditor or auditors and appoint in his or their place any other person or persons who have been nominated for appointment by any member of the company and of whose nomination notice has been given to the members of the company not less than fourteen days before the date of the meeting; and

b) if the directors fail to exercise their powers under this sub-section, the company in general meeting may appoint the first auditor or auditors:

[Provided further that the auditors appointed in an annual general meeting shall not be removed during their tenure except through special resolution].

(4) The directors may fill any casual vacancy in the office of an auditor, but, while any such vacancy continues, the surviving or continuing auditor or auditors, if any, may act.

(5) Any auditor appointed to fill in any casual vacancy shall hold office until the conclusion of the next annual general meeting.

(6) Where the first auditors are not appointed under clause (b) of the proviso to sub-section (3) within one hundred and twenty days of the date of incorporation of the company, or where at an annual general meeting no auditors are appointed, or where auditors appointed are unwilling to act as auditors of the company, or where a casual vacancy in the office of an auditor is not filled within thirty days after the occurrence of the vacancy, 1 [or auditors are removed by the company, the Commission] may appoint a person to fill the vacancy.

(7) The company shall, within one week of the Commission's power under sub-section (6) becoming exercisable, give notice of that fact to the Commission.

(8) The remuneration of the auditors of a company shall be fixed —

a) in the case of an auditor appointed by the directors or by the Commission, as the case may be; and

b) in all other cases, by the company in general meeting or in such manner as the general meeting may determine

**Total Marks 10**

**Ans.2 Sec 20 21 22**

1. Subject to the provisions of this ordinance, accompany may ,by special resolution, after the provisions of its memorandum so as to change the place of its registered office from one province to another, or from one city or town in a province to another, or from a part of Pakistan not forming part of a province, or with respect to the objects of the company, so far as may be required to enable it,

- a) to carry on its business more economically or more efficiently; or
- b) to attain its main purpose by new or improved means; or
- c) to enlarge or change the local area of its operations; or
- d) to carry on some business, not being a business specified in its memorandum, which may conveniently or advantageously be combined with the business of the company; or
- e) to restrict or abandon any of the objects specified in the memorandum; or
- f) to sell or dispose of the whole or any part of the undertaking of the company; or
- g) To amalgamate with any other company or body of persons.

2. The alteration shall not take effect until and except in so far as it is confirmed by the Commission on petition:

Provided that an alteration so as to change the place of registered office of a company from place in the province of the Punjab to the Islamabad capital territory or from the latter to a place in the province of the Punjab, or from one city in a province to another, shall not require, confirmation by the commission.

3. before confirming the alteration, the commission must be satisfied:

- a) the sufficient notice has been given to every holder of debentures of the company, and to any person or class of persons whose interest will, in the opinion of the commission, be affected by the alteration; and
- b) that, with respect to every creditor who in the opinion of the commission is entitled to object ,and who signifies his objection in manner directed by the commission, either his consent to the alteration has been obtained or his debt or claim has been discharged or determined, or has been secured to the satisfaction of the commission;

Provided that the commission may, in the case of any person or class of persons, for special reasons, dispense with the notice required by clause Power of commission when confirming alteration. the commission may make an order confirming the alteration either wholly or in part ,and on such terms and conditions as it thinks fit, and may make such order as to costs as it thinks proper.

**Total Marks 10**

**Ans.3 Alternate Dispute Resolution**

**06**

a Alternate Dispute Resolution is any type of procedure or combination of procedures voluntarily used to resolve issues in controversy. Other than court based adjudication,

**Negotiation**

In negotiation the participation is voluntary and there is no third party who facilitates the resolution process or imposes a resolution.

**Advantages of ADR****04****Speedy**

Arbitration is often faster than litigation in court.

**Cheaper and Flexible**

Arbitration can be cheaper and more flexible for businesses.

**Privacy**

The public and the press have no right to attend a hearing before an arbitrator.

**Appeal**

In most legal systems, there are very limited avenues for appeal of an arbitral award.

**Service of an expert**

The parties may choose the person who is an expert in the particular commercial field that they are in to settle their dispute.

**Mediation**

In mediation there is a third party a mediator is a person who facilitates the resolution process but does not impose a resolution on the parties.

**Arbitration**

Arbitration is settlement of a dispute by an independent person usually chosen by the parties themselves.

**Conciliation**

It is a process in which conciliator meets with the parties separately to resolve the grievances.

**Total Marks 10****Ans.4 Articles**

Articles means the articles of association of a company as originally framed or as altered in accordance with the provisions of any previous companies Act, or of this Ordinance, including so far as they apply to the company, the regulations contained in Table A in the First Schedule.

**Associated Companies and Associated Undertakings**

Associated companies and associated undertakings mean any two or more companies or undertakings, or a company and an undertaking, interconnected with each other.

**Body Corporate**

Body corporate or corporation includes a company incorporated outside Pakistan but does not include a corporation sole; or a co-operative society registered under any law relating to the registration of co-operative societies or any other corporate, not being a company as defined in this Ordinance, which the federal Government may, by notification in the official Gazette, specify in this behalf.

**Company Limited by Shares**

Company limited by shares means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

**Company Limited by Guarantee**

Company limited by guarantee means a company having the liability of its members limited by the memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its winding up.

**Total Marks 10**

**Ans.5 Requirement & Purpose**

A company is normally required by law to hold an annual general meeting (AGM) at which the members should be entitled to vote on certain resolution. In normal circumstances, the meeting is called by the board of directors.

An AGM gives the members an opportunity to assess and discuss the company's performance and situation because on of the main agenda items of such a meeting is consideration and discussion the company's performance and situation because on of the main agenda items of such a meeting is consideration and discussion of audited annual financial statements. Without a meeting of this kind the members of a large company who are remote from the directors would be deprived of the opportunity to hear the directors give an account of themselves and the company's achievements.

Besides consideration and adoption of audited financial statements, auditors' and directors' report, an AGM is also used to obtain shareholder approval for certain matters such as:

- The election or re-election of directors, if due on the date of AGM
- The approval of final dividend, if declared by the directors
- The appointment or re-appointment of the auditors.

the AGM is therefore normally used to consider routine business, Most of the resolutions at an AGM are (ordinary) resolutions, but there may also be some special resolutions ( defined in earlier chapters)

**Timing place and notice period**

- The first annual general meeting of a company shall be held within 18 months from the date of its incorporation and thereafter at least once in a calendar year.
- Subsequent annual general meeting shall be held within four months from closure of its financial year and 15 months from the last meeting, whichever is earlier.
- The SECP, in the case of a listed company and the Registrar, in the cases of other companies may extend the time for holding of such meeting.

- At least 21 days' notice shall be given to members for holding of a meeting, further in case of listed companies such notice shall also be published in an Urdu and an English daily newspapers having circulation in the province in which the stock exchange, on which the company is listed, is situated.
- AGM of a listed company is held in the town in which the registered office is situated however SCP may allow to hold any particular AGM elsewhere than the town of registered office.
- AGM is called on the order of directors and not of the members.

**Total Marks 10**

**Ans.6** According to **Sec 6** of contract Act 1872. A proposal is revoked:

1. by the communication of notice of revocation by the proposer to the other party;
2. by the laps of the time prescribed in such proposal for its acceptance, or, if no time is so prescribed, by the lapse of a reasonable time, without communication of the acceptance;
3. by the failure of the acceptor to fulfill a condition precedent to acceptance; or
4. by the death or insanity of the proposer, if the fact of his death or insanity comes to the knowledge of the acceptor before acceptance.

In a given situation Ali is not responsible since he revoked his offer before the acceptance by Zaid. Zaid under no circumstances, can sue Ali on ground of revoking the offer and cannot ample Ali to act in accordance with the offer made.

**Total Marks 10**

**Ans.7** According to **Sec 125** of contract Act 1872, Rights of indemnity- holder when sued 125. The promisee in a contract of indemnity, acting within the scope of his authority, is entitled to recover from the promisor-

1. all damages which he may be compelled to pay in any suit in respect of any matter to which the promise to indemnify applies;
2. all costs which he may be compelled to pay in any such suit if, in bringing or defending it, he did not contravene the orders of the promisor, and acted as it would have been prudent for him to act in the absence of any contract of indemnity, or if the promisor authorized him to bring or defend the suit;



3. all sums which he may have paid under the terms of any compromise of any such suit, if the compromise was not contrary to the orders of the promisor, and was one which it would have been prudent for the promisee to make in the absence of any contract of indemnity, or if the promisor authorized him to compromise the suit.

**Total Marks 10**

**Ans.8** According to **Sec 26** of partnership Act Liability of the firm for wrongful acts of a partner.

- (a) — Where by the wrongful act or omission of a partner acting in the ordinary course of the business of a firm or with the authority of his partners, loss or injury is caused to any third party, or any penalty is incurred, the firm is liable therefore to the same extent as the partner. So in the present case the firm is responsible

**Ans.8** According to Sec 7 of partnership Act, where no provision is made by contract between the partners for the duration of their partnership, or for the determination of their partnership, the partnership is 'partnership at will'.

**Total Marks 15**

**Ans.9** As per **Sec-7** of sale of goods Act, where there is contract for sale of specific goods, the contract is void if the goods without the knowledge of the seller have at the time when the contract was made, perished or become so damaged as no longer to answer to their description in the contract so under the current scenario, the contract between Aslam and Ajmal is void. Rescission will be granted. Any advance payment received by Aslam will be returned

**Ans.9** **Sec 2(8)**

- (b) A person is said to be insolvent who has ceased to pay his debts in the ordinary course of business, or cannot pay his debts as they become due, whether he has committed an act of insolvency or not.

**Total Marks 15**

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# **Business Economics**

**(Level-2)**



## Summer Exam-2017 Solutions – Economics

**Q.1.** The phenomenon of scarcity gives rise to some basic questions that are faced by every economy. This envelops the fact that resources are scarce so society must use them efficiently. This results in three fundamental questions; what to produce, how to produce and for whom to produce. 03

**(i) What to produce?**

This question addresses two aspects; the needs of the society and the use of the available resources in the most efficient manner. For instance, should we cultivate coffee or tea? In what quantities coffee or tea should be produced? The scarce resources (eg. capital, human resource, labour, materials etc.) have to be allocated among the goods and services to be produced. The allocation has to be determined further in terms of present and future use i.e. consumer, producer or capital goods.

**(ii) How to produce?**

This question asks about the combination of scarce resources that would be used to produce goods and services. It questions the production techniques and whether these would be capital intensive or labour intensive. For instance, deciding about who will cultivate the coffee beans? Would it be a manual farming or a mechanised agriculture? Should traditional methods be used or should it be cultivated in nurseries?

**(iii) For whom to produce?**

This involves deciding about the distribution of goods and services i.e. who gets the final national product and how much. For instance, is coffee produced for the people living in the country or is to be exported outside where it is taken as a preferred commodity? Is the final product distributed fairly and evenly amongst different societies? And who gets how much.

In a free market economy all resources are in the hands of individuals and they take basic decisions through market forces (price mechanism). 07

The first function of prices is to resolve the problem of what to produce and in what quantities. In a capitalist economy, production of a commodity is decided by the forces of demand and supply. The production of the commodity is increased whose price goes up as a result of increase in its demand. On the other hand, if the demand of a commodity declines, its production is reduced.

As the competition among consumers decides as to what goods should be produced, in the same way, the competition among the producers decides as to how goods should be produced. A commodity can be produced adopting a number of techniques. The method or technology which is the cheapest is adopted and the one which is costlier is abandoned.

In a free market economy, production of commodities depends upon the buying capacity of the consumers in the market. Therefore, in a capitalist economy, it is observed that price-mechanism facilitates more production of luxuries meant for rich people and less production of goods of mass consumption meant for poor people.

**Fundamental problems of an economy:3 marks solution under free market economy: 7 Marks**

**Total Marks 10**

**Q.2. Income elasticity of demand:** A measure of the responsiveness of demand for a good in relation to a change in the level of money income amongst consumers. 04

$$\text{Income elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in income}}$$

A normal good will always have a positive income elasticity of demand, because as income increases, demand for the product increases also.

An inferior good will always have a negative income elasticity of demand, because as income increases, demand for the product will decrease, as consumers switch to other alternatives.



## Summer Exam-2017 Solutions – Economics

(b) Income elasticity of demand =  $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in Price}}$

06

$$Ed_y = \frac{Q_2 - Q_1}{Q_2 + Q_1/2} \div \frac{Y_2 - Y_1}{Y_2 + Y_1/2}$$

$$= \frac{600,000 - 450,000}{600,000 + 450,000/2} \div \frac{50,000 - 30,000}{50,000 + 30,000/2}$$

$$= \frac{150,000}{525,000} \times \frac{40,000}{20,000}$$

= 0.571, Good is normal and  $Ed_y$  is lesser than 1

(a) Definition of income Elasticity of demand: 2 Marks, interpretation of result: 2 Marks

(b) Formula of Income elasticity: 1 Mark Correct calculation: 5 Marks

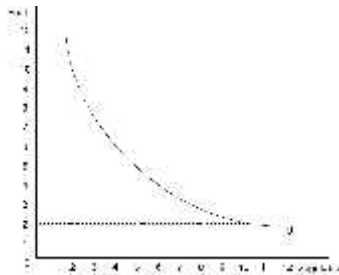
**Total Marks 10**

### Q.3. Indifference Curve:

04

(a) An indifference curve is one that shows the different combinations of two goods which give an equal level of utility or satisfaction to the consumer.

An indifference curve is always downward sloping from left to right or it can be said that it has a negative slope. This is because if someone increases the consumption of one good, in order to maintain the same level of satisfaction, he must decrease his consumption of the other.



(b) Limitations of Law of Equi-marginal utility/Cardinal approach of utility

06

1. **Conscious calculation:** This law requires conscious calculation of marginal utilities of different goods and their comparison for a rational decision but it seems difficult for an ordinary consumer to calculate the marginal utilities and equate them.
2. **Consumer ignorance:** Most of the consumers are ignorant; they do not know about the various alternatives which are most useful. Consumers are not sensible enough to assess and compare variations in marginal utilities of different commodities.
3. **Customs and fashion:** sometimes people consider only fashion and custom while taking the purchase decisions and they don't care the marginal utilities and outcome of their decisions.
4. **Indivisible goods:** Goods are often available in large indivisible units. Because the goods are indivisible, it is not possible to equate the marginal utility of money spent on them.
5. **Utility can't be measured cardinally:** This law is based upon the assumption that utility can be cardinally measured. But it very difficult to express the utility in numeric. Hicks says utility can be measured in ranks rather than expressing in cardinal terms.

(a) Definition of IC: 1 mark, Explanation of downward sloping IC: 3 Marks

(b) Limitations of Law of Equi-marginal utility: 4\*1.5= 6 Marks



## Summer Exam-2017 Solutions – Economics

- Q.4. Price Discrimination:** The action of selling the same product to different groups of buyers at different prices in order to maximize profits is called Price Discrimination. 03
- (a)**

**Examples:**

1. Airlines and other travel companies use differentiated pricing regularly.
2. Early Bird discounts

- (b) Conditions of Price Discrimination** 05

1. **Monopoly Power:** A seller must be a monopolist or imperfect competitor firm. A perfect competitor firm cannot charge different prices of the same product.
2. **Difference in Elasticity of Demand:** The elasticity of demand of product must be different in different markets. In ISO elastic demand markets, a seller cannot charge different prices.
3. **Separation of market:** Firm must be able to split up the groups of buyers, and prevent goods from being resold between them.
4. **Imperfect information of buyers:** In case of perfect information of buyers, a firm cannot charge different prices.

**(c) Price Discrimination: 1.5 Marks Practical Examples: 1.5 Marks**

**(d) Three conditions of Price Discrimination: 5 Marks**

**Total Marks 08**

- Q.5. Value Added Method to measure National Income** 08

**(a)** Value added method is also named as Product method. This method measures the contribution of each enterprise in the flow of goods and services in the economy. Under this method, the economy is generally divided into three sectors:

- (a) Primary sector
- (b) Industrial sector and
- (c) Service sector/tertiary sector

The main enterprises included in these sectors are agriculture, fishing, forestry, mining, manufacturing, construction, transport and communication, trade and commerce, insurance, banking etc. For computing national income, either the value of final goods and services is added or the value added at each stage is worked out. The value of output at each enterprise is found by multiplying the physical output with the market prices of the goods produced. For example, firm A produces necessary raw material and sells it in market for Rs. 2000 to firm B. The firm B manufactures raw material, into finished goods and sells it to firm C for Rs. 4000. The firm C sells the finished goods to household for Rs. 5000. The value added at each stage is Rs. 2000 + 2000 + 1000 = Rs. 5000. The total value added is Rs.5000 (it is the same as the value of final good traded). This method involves the following steps:

- GDP at market prices(Gross Value Added)= Value of output
  - Value of output = Sales + Change in stock
- GNP at market prices :
  - GNP at market prices= GDP at market prices + Net factor income from abroad
- NNP / National income at market prices:
  - NNP= GNP at market prices – Depreciation of capital
- National Income:  
NI=NNP/NI at market prices-Net indirect Tax



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- (b) **Double counting:** Double counting means considering the value of same good more than one time. The outputs of some firms become inputs of others. For example, the output from a factory making electrical components will be used as inputs in the motor industry. If the total value of both industries' output were included in the aggregate then the value of the components used in the motor industry would be included twice. 03

To avoid this problem only the value added at each stage of production is added.

- (e) **correctly explained product method to measure NI: 8 Marks**  
(f) **Double counting definition: 1.5 Marks, why do we avoid double counting: 1.5 Marks**

**Total Marks 11**

- Q.6. Average Propensity to consume:** The average propensity to consume refers to the percentage of income spent on goods and services. 03

(a)

$$APC = C/Y$$

**Marginal Propensity to Consume:** The marginal propensity to consume (MPC) is the ratio of change in consumption to change in income.

$$MPC = \frac{\text{Change in consumption}}{\text{change in Income}}$$

The value of MPC lies between zero and 1

(b)

Income Level (Rs. m)	Consumption	Saving	APC	MPC	APS	MPS
0	100	-100	-	-	-	-
100	150	-50	1.5	0.5	-0.5	0.5
200	200	0	1	0.5	0	0.5
300	250	50	0.83	0.5	0.17	0.5
400	300	100	0.75	0.5	0.25	0.5
500	350	150	0.7	0.5	0.30	0.5

08

- (g) **Definitions of APC and MPC: 3 Marks**  
(h) **Filling of one column: 2 Marks, Filling of all columns: 8 Marks**

**Total Marks 11**

- Q.7. Unemployment:** Unemployment is a phenomenon that occurs when a person who is actively searching for employment is unable to find work. 02

(a)

- (b) **Suggestions to Pakistan Economy to reduce Unemployment** 08

- Education and Training:** Those who are unemployed since long could be simply taught new skills that might find them a job in developing industries. Also, people are change averse, in spite of the initiative taken up, they might be quite unwilling to take up the new role. Therefore, the process takes enough time translated in terms of a number of years to get the unemployment figures reduced permanently.
- Financial Assistance:** This is also witnessed that unemployed people are concentrated in certain areas. So the government can take the initiative of providing subsidies, grants and even tax exemptions to those industries that might set up at such depressed places. Even the individuals could be provided financial assistance to move to places where they find a job by way of low cost housing and grants.



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3. **Develop a culture for entrepreneurship:** Devise mechanisms that could be the best talent together. Starting outreach program early with the help of accelerators, mentors and networks can set the stage for youth to think about entrepreneurship.
4. **Employment opportunities in rural areas:** Creating more employment opportunities in the rural areas through intensive farming, greater irrigation facilities, extension of community projects, organization of co-operative farming, development of village industry and settlement of agricultural labourers on the reclaimed land. Emphasis should also be laid on the development of small-scale and cottage industries to relieve the pressure on land.

(i) **Definition of Unemployment: 2 Marks**

(j) **one suggestion to reduce unemployment: 2 Marks, Four suggestions: 4\*2=8 Marks**

**Total Marks 10**

- Q.8. Expansionary Monetary Policy:** An expansionary monetary policy will be used when the central bank wishes to stimulate the level of demand within an economy. If the level of output is low, meaning central bank objectives are not being met, and then they will look at ways of stimulating aggregate demand through one, or a combination of, monetary policies. **04**
- (a)

**Contractionary Monetary Policy:** To control inflation central bank contracts the money supply through one or more tools; in result of which aggregate demand contracts. This is called contractionary monetary policy.

- (b) **Objectives of Monetary Policy** **08**
- There are numerous objectives that monetary policy looks to achieve and, as we shall see, it is not possible to satisfy all of them.

1. **Price stability:** Keeping inflation low and steady for a more stable economic performance.
2. **Economic growth:** With appropriate economic policy, the government wishes to develop the overall per capita income within the country.
3. **Exchange rate stability:** Achieve stable exchange rates between countries in part through adjusting for the balance of payments.
4. **Full employment:** Here, it is necessary to increase production and demand for goods, allowing resources to be fully utilised and the economy to reach full employment.
5. **Credit control:** Making banks exercise control over their issuance of credit, but also ensuring that the most vulnerable in society are receiving their fair share.

(k) **Definition of expansionary and contractionary monetary policy: 2+2= 4 Marks**

(l) **Brief explanation of one Objective: 1.5 Marks , 1.5\*4 = 6 Marks**

**Total Marks 10**

**Q.9. Functions of money**

The problems that come with bartering have led to the evolution of money in its current form. The functions that money should be able to possess, in part due to identifying the problems of the barter system, are explained below.

There are four functions that money undertakes in modern society

1. **To act as a medium of exchange:** Allowing economic agents to exchange goods without the need to barter.



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3. **To act as a store of value:** Allowing people to forgo immediate consumption if they have a surplus of resources, and to retrieve it at a later date in order to consume.
4. **To act as a standard of deferred payments:** Allowing people to consume goods and services in a current time period, whilst continuing to pay in future periods.

### Effects of inflation

A persistent rise in prices will affect the functions of money in different ways. For ease of interpretation, we will assume that economy is in a state of hyper inflation, as the effects are much more pronounced.

- As a medium of exchange, people may not trust that the money they are holding will be exchangeable for goods and so money will lose this functionality.
- As a unit of account, inflation will distort the relative prices between goods making comparisons difficult.
- The most important way in which inflation degrades the functionality of money is through its use as a store of value. High inflation means that money does not keep its value, because purchasing a good tomorrow will require more money than today.
- As a standard of deferred payments, inflation distorts people's willingness to accept deferred payments, as the value they receive will not be consistent with the present.

**Brief explanation of one function: 1.5 Marks, Marks For explaining 4 or more functions: 6 Marks**  
**Effect of inflation on functions of money: 4 Marks**

**Total Marks      10**

- Q.10.**
- (i) **Money Market:** The financial market which is used to raise short-term credit. The instruments traded in money market are treasury bills, commercial papers etc.
  - (ii) **Monopoly:** A market structure in which a single firm has control over the price or supply of good is called monopoly.
  - (iii) **Demand Pull Inflation:** If general price level of a country increases due to increase in the demand for goods and services, it is called demand pull inflation.
  - (iv) **Fiat Money:** It is money with no intrinsic value. The value comes solely from the fact that the government has decreed that it has money for that purpose. It is used by most countries, as it can be designed to allow a stricter adherence to money's main functions
  - (v) **Foreign Exchange Rate:** The exchange rate is the price of one currency expressed in terms of another currency.

**2 marks for each definition**

**Total Marks      10**

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# **Cost Accounting**

**(Level-2)**



## Summer Exam-2017 Solutions – Cost Accounting

**Q.1. Definition** 10  
**(a)**

Economic Order Quantity means a calculation that helps to determine the amount of material a company should request from suppliers and hold in its inventory given certain factors including demand, production, and inventory cost. In other words, it's the ideal lot size to purchase for an organization.

### Uses & Benefits of Economic Order Quantity

The Economic Order Quantity model is used in inventory management by calculating the number of units a company should add to its inventory with each batch order to reduce the total costs of its inventory. The costs of its inventory comprise carrying costs and order costs, therefore the total inventory cost can be represented by the following equation:

Total inventory costs = ordering costs + carrying costs

The economic order quantity model states there is a trade-off between inventory carrying costs and inventory ordering costs, and total inventory costs are minimized when both ordering costs and carrying costs are minimized.

Carrying costs refer to all the costs associated with carrying additional inventory on hand. Inventory carrying costs include warehousing and logistical costs, insurance costs, material handling costs, inventory write offs and depreciation. Economic order quantity seeks to reduce these costs by ensuring the right amount of inventory is ordered with each batch so there is not an excess of inventory sitting on hand and incurring these types of costs.

Ordering costs refer to all the costs associated with actually ordering the inventory, such as the cost of packaging and delivery. Economic order quantity seeks to ensure the right amount of inventory is ordered per batch so a company does not have to make orders too frequently and incur these avoidable costs by ordering large amounts of inventory with a single batch order.

Ordering a large amount of inventory increases a company's carrying cost, while ordering smaller amounts of inventory increases a company's ordering costs. The economic order quantity model finds the quantity that minimizes both types of costs. That means it has to have some sort of financial metric to calculate the optimal quantity of inventory to order and store. That metric is economic order quantity or EOQ.

**(b)** 
$$EOQ = \sqrt{\frac{2 \times AR \times OC}{CC}}$$
 02

$$= \sqrt{\frac{2 \times (4,000 \text{ units} \times 12) \times \text{Rs. } 1,000}{\text{Rs. } 120 \times 20\%}} = \sqrt{\frac{\text{Rs. } 96,000,000}{24}}$$
 04

$$= \sqrt{4,000,000}$$
 02

$$EOQ = 2,000 \text{ units}$$
 02

**Total Marks** **20**

**Q.2. It is of two types:** 2.5  
**(a)**

### Normal Idle Time:

This represent the time wastage which we cannot avoided e.g, time used in reaching working place from entry point, picking up the work, starting new job etc.

Normally the cost of normal idle time is treated as FOH, but if the idle time occurs on a



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Cost of abnormal idle time is charged to the profit and loss account and not to the production.

### Q.2. Total expenses per worker per month

(b)

(i)

	Rs.	
Wages	2,000.00	01
Dearness allowance	500.00	01
Bonus [2,000 × 10 %]	200.00	01
Contribution to provident fund	166.67	01
Contribution to social security fund	140.00	01
Old age benefit	100.00	01
<b>Note: it should be based on basic wages</b>	100.00 (Rs.2,000x0.05)	01
Canteen [17,000 / 200]	85.00	01
Total	3291.67	01

### (b) No of effective hours in a month

(ii)

	hours	
Total time for work [25 × 8 × 200]	40,000	01
Idle time [40,000 × 20 %]	(8,000)	01
Allowance for paid leave [40,000 × 5 %]	(2,000)	01
Effective time worked	30,000	01

### (c) Cost per hour

(iii)

Total cost Rs. 3291.67 × 200 =  $\frac{658,334}{40,000 \text{ Hrs}}$  = Rs.16.736/hour

Total hours = 40,000

Labour hour rate 16.736 / hour

**Total Marks      20**

### Q.3. Final amount of estimated overheads of each service dept

(i)

$X = 48,000 + 0.2Y$  (1) 01

$Y = 36,000 + 0.4X$  (2) 01

**For getting the value X multiply equation (2) by 0.2 and add in equation (1):**

$X - 0.2Y = 48,000$  03

$\underline{- 0.08X + 0.2Y} = \underline{7,200}$  01

$0.92X = 55,200$  02

$X = \frac{55,200}{0.92} = 60,000$  03

**Therefore Y should be:**

$Y = 36,000 + 0.4(60,000)$  02

$Y = 36,000 + 24,000 = 60,000$  02

Total overheads of each production dept. after transfer of service dept. costs:



## Summer Exam-2017 Solutions – Cost Accounting

	Production Dept.		Service Dept.		
	A	B	X	Y	
Cost before allocation	120,000	145,000	48,000	36,000	01
<b>Allocation of:</b>					
Cost of X	18,000	18,000	(60,000)	24,000	01
Cost of Y	12,000	36,000	12,000	(60,000)	01
Total cost after allocation	150,000	199,000	0	0	

**Total Marks      20**

**Q.4.**

	Products			
	M	N	Total	
	Rs.	Rs.	Rs.	
Revenue				
Product M = 45,060 kg × Rs. 12	540,720			01
Product N = 15,900 kg × Rs. 15		238,500		01
Further processing costs				
Product M = 45,060 kg × Rs. 1.65	(74,349)			01
Product N = 15,900 kg × Rs. 3.00		(47,700)		01
Net realizable value	<u>466,371</u>	<u>190,800</u>	<u>657,171</u>	02

**Allocation of joint processing costs**

**(i) Net realizable value**

$$\text{Product M's share of processing costs} = \text{Rs. } 428,760 \times \frac{466,371}{657,171} = \text{Rs. } 304,276 \quad 04$$

**(ii) Physical quantities**

$$\text{Product M's share of processing costs} = \text{Rs. } 428,760 \times \frac{45,060}{45,060 + 15,900} \quad 04$$

$$= \text{Rs. } 428,760 \times \frac{45,060}{60,960}$$

$$= \text{Rs. } 316,928$$

**Gross Profit Calculation of Product M**

	Net Realizable Value Method	Physical Quantities Method	
	Rs.	Rs.	
Net realizable value	466,371	466,371	02
Allocated process cost	<u>(304,276)</u>	<u>(316,928)</u>	02
Gross profit	162,095	149,443	02

**Total Marks      20**

**Q.5.  
(a)**

**M/S Bashir Limited  
Schedule of Budgeted Production Cost  
For July 1995 Actual Production 9,200 Units**

Direct Material	9,200 × 3 kg	×	32.50	=	897,000	0.75
Direct Labour	9,200 × 5 Hours	×	17.50	=	805,000	0.75
FOH Variable	9,200 × 5 Hours	×	7.50	=	345,000	0.75
Fixed	47,000 Hours ×		9.00	=	423,000	0.75



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**Solutions – Cost Accounting**

<b>(b)</b>	<b>Computation of Variance (Rupees)</b>		<b>04</b>
	<b>Material Purchase Price Rate Variance:</b>		<b>04</b>
Actual	$29,487 \times 32.60 = 961,276.20$		
Budget	$29,487 \times 32.50 = \underline{958,327.50}$	2,948.70 (U.F)	
	<b>Material Usage Variance:</b>		<b>04</b>
Actual	$27,246 \times 32.50 = 885,495$		
Standard	$27,600 \times 32.50 = \underline{897,000}$	11,505 (F)	
	<b>Material Usage Variance:</b>		<b>04</b>
Actual	$47,300 \times 17.00 = 804,100$		
Standard	$47,300 \times 17.50 = \underline{827,750}$	23,650 (F)	
	<b>Direct Labour Efficiency Variance:</b>		<b>04</b>
Actual	$47,300 \times 17.50 = 827,750$		
Standard	$46,000 \times 17.50 = \underline{805,000}$	22,750 (U.F)	
		<b>Total Marks</b>	<b>20</b>

\*\*\*\*\*

# **Financial Accounting**

**(Level-3)**



## Summer Exam-2017 Solutions – Financial Accounting

Q.1.

### S. B. GRAPHICS (PRIVATE) LIMITED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED JUNE 30, 2016

		Rupees in '000s	
Sales (134,840 - 456 - 121)		134,263	0.5
Less Cost of Goods Sold	W-01	105,614	2.5
Gross Profit		28,649	
Less : Distribution Cost	W-02	(12,743)	7.5
Less : Administrative Expenses		(7,610)	0.25
Profit from Operation		8,296	
Less Finance Cost (900 + 900)		(1,800)	0.5
Profit Before Taxation		6,496	
Provision for Taxation		(5,190)	0.5
Net Profit for the Period		1,306	0.5

### S. B. GRAPHICS (PRIVATE) LIMITED STATEMENT OF FINANCIAL POSITION AS ON JUNE 30, 2016

		Rupees in '000s	
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Paid up Capital		21,000	0.25
Share Premium		5,000	0.25
Revaluation Reserves		3,200	0.25
Retained Earnings (16,570 + 1,306 - 7,500)		10,376	0.5
Total Equity			39,576
Long Term Loan			30,000 0.5
<b>Current Liabilities</b>			
Accounts Payable		15,490	0.25
Provision for Taxation		5,190	0.25
Accrued Expenses (1,250 + 900)		2,150	0.5
Total Current Liabilities			22,830
<b>TOTAL EQUITY AND LIABILITIES</b>			<b>92,406</b> 0.5
<b>ASSETS</b>			
Non-current assets	W - 03		56,400 2.5
<b>Current Assets</b>			
Closing Stocks (13,870 + 72)		13,942	0.5
Accounts Receivables (20,200 - 121 - 620)		19,459	0.1
Prepaid Expenses (618 + 57)		675	0.5
Cash and Bank Balance		1,930	0.25
Total Current Assets			36,006
<b>Total Assets</b>			<b>92,406</b> 0.5



## Summer Exam-2017 Solutions – Financial Accounting

### S. B. GRAPHICS(PRIVATE) LIMITED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2016

#### Working - 01 (COST OF GOODS SOLD)

Opening Stock	20,730	
Add Purchases	99,540	
Less Purchase Return	(714)	
Less Goods Return not accounted for	(72)	
Goods Available for Sales	119,484	
Less Closing Stocks	13,870	
Cost of Goods Sold	<b>105,614</b>	2.5

#### Working - 02 DISTRIBUTION COST

Distribution Cost	12,800	
Less Advertising Cost for 3 Months (76 X 3/4)	(57)	
<b>Total Administrative Expenses</b>	<b>12,743</b>	0.75

#### Working - 03 (NON-CURRENT ASSETS)

	Cost	Acc. Depreciation	Revaluation	Total	
Land (35,900 + 3,200)	35,900	-	3,200	39,100	2.5
Buildings	12,800	9,020	-	3,780	
Fixture and Fittings	6,950	4,370	-	2,580	
Motor Vehicle	17,320	10,030	-	7,290	
Office Equipments	5,970	2,320	-	3,650	
<b>Written Down Value as on June-30-2016</b>	<b>78,940</b>	<b>25,740</b>	<b>3,200</b>	<b>56,400</b>	

**Total Marks 16**

(Amount in Rupees)

	Item	Cost	Sale Value	Selling Expenses 10% of Sales Val.	Net Realizable Value	Lower of Cost and NRV	
<b>Q.2. (a)</b>	<b>A</b>	80,000	120,000	12,000	108,000	80,000	1
	<b>B</b>	98,000	101,000	10,100	90,900	90,900	1
	<b>C</b>	50,000	40,000	4,000	36,000	36,000	1
	<b>D</b>	89,000	73,000	7,300	65,700	65,700	1
	<b>E</b>	94,000	108,000	10,800	97,200	94,000	1
	<b>F</b>	180,000	205,000	20,500	184,500	180,000	1
	<b>G</b>	194,000	210,000	21,000	189,000	189,000	1
		<b>TOTAL</b>	<b>785,000</b>	<b>857,000</b>	<b>85,700</b>	<b>771,300</b>	<b>735,600</b>





## Summer Exam-2017 Solutions – Financial Accounting

(b)

	JOURNAL ENTRIES		Rs.
	Debit	Credit	
Depreciation Expenses	20,000		1
Accumulated Depreciation		20,000	1
(To record Depreciation Expenses for 06 Months)			
Office / Building New Bloc	200,000		1
Accumulated Depreciation	420,000		1
Revaluation Reserve		620,000	1
(To record revaluation reserve as per Note # 01)			
Depreciation Expenses	27,500		1
Accumulated Depreciation		27,500	1
(To record Depreciation Expenses for 06 Months) (2,200,000 / 40 = 55,000 / 2)			

### WORKING NOTE # 01

Cost of Office Block	2,000,000
Less Accumulated Depreciation	400,000
	<b>1,600,000</b>
Proportionate Depreciation for 06 Months (i.e. April 01, 2014 to September 30, 2014). (2,000,000 / 50 = 40,000/2)	20,000
Book Value as on September 30, 2014	1,580,000
Reassessed Value as on October 01, 2014	2,200,000
<b>Revaluation Reserve / Gain on Revaluation</b>	<b>(620,000)</b>

**Total Marks 14**

Q.3.  
(a)

### LAHORE BRANCH MEMORANDUM TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2015

Debit	Rs.	Credit	Rs.	
Particulars		Particulars		
Opening Stock	15,700	Cash Sales	19,700	0.75
Goods Sent to Branch Net of Returned (45,600 - 3,900)	41,700	Credit Sales	53,600	1.5
Gross Profit	34,700	Closing Stock	18,800	0.5
	92,100		92,100	
Salaries	12,800	Gross Profit b/d	34,700	0.5
Rent	3,000			0.25
Branch Expenses (Note # 02)	2,620			0.1
Profit and Loss Account	16,280			0.5
	34,700		34,700	



## Summer Exam-2017 Solutions – Financial Accounting

(b)

**IN THE BOOKS OF THE HEAD OFFICE  
GREEN ACRES (PRIVATE) LIMITED - KARACHI - (HEAD OFFICE)  
BRANCH DEBTORS ACCOUNT**

Debit Particulars		Credit Particulars		
Balance b/d	16,900	Bank Account (Collection)	52,200	1
Sales Account (Credit Sales)	53,600	Balance c/d	18,300	1
	70,500		70,500	

**Total Marks 07**

Q.4.

**Ali Brothers (Private) Limited  
Statement of Cash Flows  
For the year ended December 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES		Rs.	
<b>Profit before Taxes</b>	W-01	135,000	1
<b>Adjustments for :</b>			
Depreciation - Machinery	W-04	55,000	1
Depreciation - Building		20,000	0.5
<b>Operating Profit before Working Capital Changes</b>		210,000	
Decrease in Inventories		20,000	0.5
Increase in Trade Receivables		(20,000)	0.5
Decrease in Current Liabilities		(100,000)	0.5
<b>Cash Flow from Operating Activities</b>		110,000	
Income Tax Paid	W-02	45,000	1
<b>Net Cash from Operating Activities</b>		65,000	
<b>Cash Flow from Investing Activities</b>			
Purchase of Machinery		(125,000)	1
Sale Proceeds of Investments	W-03	60,000	1
<b>Cash used in Investing Activities</b>		-	
<b>Cash Flow from Financing Activities</b>			
Issue of Shares		150,000	1
Repayment of Long Termn Loans		(100,000)	1
<b>Net Increase in Cash and Cash Equivalentts</b>		50,000	
Opening Balance of Cash and Cash Equivalentts (200,000 +300,000)		500,000	0.5
<b>Closing Balance of Cash and Cash Equivalentts (140,000 +410,000)</b>		550,000	0.5

**WORKING NOTES**

W-01 - PROFIT BEFORE TAXES	Rs.
Balance Brought Forward	480,000
Balance Carried Forward	400,000
Increase	80,000
Add Provision for Taxation	55,000



## Summer Exam-2017 Solutions – Financial Accounting

<b>W - 02 - INCOME TAX PAID DURING THE YEAR</b>	<b>Rs.</b>
Provision for Tax during the year	55,000
Add Opening Balance of Provision for Taxation (2015)	50,000
	105,000
Less Closing Balance of Provision for Taxation (2016)	60,000
<b>Income Tax Paid During the Year</b>	<b>45,000</b>
<b>W - 03 - Sales Realization from Investments</b>	
Opening Balance of Investments	100,000
Add Profit on Sale of Investments (Credited to Capital Reserve)	10,000
	110,000
Less Closing Balance of Investments	50,000
<b>Investments Disposed Off During the Year</b>	<b>60,000</b>
<b>W-04 - DEPRECIATION ON MACHINERY</b>	
Opening Balance of Machinery	750,000
Add Machinery Purchased During the Year	225,000
	975,000
Less Closing Balance of Machinery	920,000
<b>Depreciation Expenses - Machinery</b>	<b>55,000</b>

**Total Marks 10**

**Q.5.**

### REVALUATION ACCOUNT

Particulars	Debit (Rs.)	Particulars	Credit (Rs.)	
Building (45,000 X 12%)	5,400	Stock	5,000	1
Machinery (40,000 X 12%)	4,800	Prepaid Insurance	1,000	1
Investments (13,000 X 12%)	1,560	Loss Transferred to A Capital	4,032	0.5
		Loss Transferred to B Capital	1,728	0.5
	11,760		11,760	

### PARTNERS CAPITAL ACCOUNT

Particulars	A	B	C	Total	
Opening Balances of Capital	88,000	64,000	-	152,000	0.5
General Reserve Account	12,600	5,400	-	18,000	1
Cash (Goodwill)	8,400	3,600	-	12,000	1
Old Goodwill – (Written Off)	(14,000)	(6,000)	-	(20,000)	1
Loss on Revaluation	(4,032)	(1,728)	-	(5,760)	1
Bank	-	-	40,000	40,000	
Present Capital before admission of Yousuf	90,968	65,272	40,000	196,240	
Revised Capital as per Profit and Loss Sharing	140,000	60,000	40,000	240,000	1.5
Capital to be (Raised) / Decrease	(49,032)	5,272	-	(43,760)	1

**Total Marks 10**



## Summer Exam-2017 Solutions – Financial Accounting

<b>Q.6.</b>			<b>06</b>
<b>(a)</b>	Rehman gets	28,912.50	
	Junaid gets	27,787.50	
	Ahmed gets	18,900	
	Gazanfar gets	18,900	

<b>Working:</b>	Rs.		Rs.	
Profit (67,500+27,000)			94,500	
Less: Interest on capital @ 7.5%				
Rehman	5,625			
Junaid	4,500			
Ahmed	3,375			
Gazanfar	<u>3,375</u>		<u>16,875</u>	
			77,625	
<b>Profit Share</b>				
Rehman	23 287.50			
Junaid	23 287.50			
Ahmed	15 525.00			
Gazanfar	<u>15 525.00</u>		<u>77,625</u>	

<b>(b)</b>		<b>05</b>
	Original cost	80,000
	Depreciation 2003 – 2004 $(80,000 \times 3/10)$	<u>(24,000)</u>
	Carrying amount at 1 December 20X5	<u><b>56,000</b></u>
	Remaining life $(7 - 3) =$	4 years
	Depreciation charge years 2005 – 2008 $(56 000/4)$	14 000

<b>(c)</b>		<b>Rs.</b>	<b>06</b>
	Net realizable value is:		
	Estimated selling price	35	
	Less: costs of completion	(12)	
	Less: selling costs	<u>(1)</u>	
		<u><b>22</b></u>	

**Total Marks 16**

<b>Q.7.</b>		<b>03</b>
<b>(a)</b>	<b>Machinery a/c</b>	
	<div style="width: 45%;"> <p><b>2007</b></p> <p>1<sup>st</sup> Jan b/d 30,000</p> <p style="text-align: right;"><u><b>30,000</b></u></p> </div> <div style="width: 45%;"> <p style="text-align: center;"><b>Rs.</b></p> <p><b>2007</b></p> <p>31<sup>st</sup> March Disposal 15,000</p> <p>1<sup>st</sup> Dec. Disposal 15,000</p> <p style="text-align: right;"><u><b>30,000</b></u></p> </div>	

<b>(b)</b>		<b>07</b>
	<b>Provision for Depreciation a/c</b>	
	<div style="width: 45%;"> <p><b>2007</b></p> <p>31<sup>st</sup> March Disposal (6,000+750) 6,750</p> <p>1<sup>st</sup> Dec Disposal (6,000+2,750) 8,750</p> <p style="text-align: right;"><u><b>15,500</b></u></p> </div> <div style="width: 45%;"> <p style="text-align: center;"><b>Rs.</b></p> <p><b>2007</b></p> <p>1<sup>st</sup> Jan b/d 12,000</p> <p>31<sup>st</sup> Dec. I/S (750+2,750) 3,500</p> <p style="text-align: right;"><u><b>15,500</b></u></p> </div>	



## Summer Exam-2017 Solutions – Financial Accounting

**Q.8.** The double entry is:

<b>DEBIT</b>	Land (Balance sheet) Ledger	Rs. 7,000
<b>CREDIT</b>	Income statement	Rs.2,000
<b>CREDIT</b>	Revaluation surplus	Rs.5,000

Note: the credit to the revaluation surplus will be shown under 'other Comprehensive Income'.

**Total Marks      05**

**Q.9.**

<b>Accounts Receivable</b>	<b>Rs.</b>	
Per Opening Trial Balance	200,000	0.5
Contra	(10,000)	1
Overcasting	(1,000)	1
Standing order	(2,000)	1
Written off	(1,000)	1
	<u><b>186,000</b></u>	
Allowance b/f	3,000	
Allowance required	<u>1,860</u>	
Journal	<u><b>1,140</b></u>	
Accounts receivable	186,000	
Less allowance	<u>(1,860)</u>	
	<u><b>184,140</b></u>	
<b>Profit before tax</b>		
Per question	80,000	
Wrong batch total	(1,000)	0.5
Returns	(4,000)	0.5
Bank charges	(1,000)	0.5
Irrecoverable debt	(1,000)	0.5
Allowance for receivables	1,140	0.5
Inventory (2,000 + 1,000)	3,000	0.1
Suspense (sales)	3,000	1.5
	<u><b>80,140</b></u>	

**07**

**05**

**Total Marks      12**

# **Business Commn. & Report Writing**

**(Level-3)**



## Summer Exam-2017

### Solutions – Bus. Commn. & Report Writing

**Q.1.** The given answer (ii) is incorrect

Correct Answer:

(ii) Digital and Analogic

**‘Digital’** refers to discrete, **define communication elements** such as words and specific gestures with generally agreed meanings, for example, “V” sign is peace or victory sign.

**‘Anagologic’** describes **communication where the act ‘evokes’ a particular inference.** For example shaking a fist in someone’s face would evoke a message of aggression and violence.

**Total Marks 09**

**Q.2. Memorandum**

A memorandum is generally used for internal communication particularly for disseminating information to staff by management – e.g. quarterly sales summaries or notice of a fire alarm test.

#### **Video conference**

- It is an upgraded version of teleconferencing that includes vision with the voice.
- It is the most appropriate medium when used for internal meetings between groups of employees in remote locations.

#### **Face-to-face**

Appropriate to a multitude of situations occurring both internally and externally, formally and informally. Examples might include a formal internal employee appraisal or an informal external client meeting.

**Total Marks 06**

**Q.3.** Reasons for exchanging messages include:

- To promote a product, service, or the organization itself
- To inform and share information within a business
- To request a decision and
- To persuade the recipient of something

**Total Marks 06**

**Q.4 Sensitivity:**

- (i) The envelope we received did not have a check in it.
- (ii) I’m always happy to discuss the contract terms with new employees.
- (iii) The proposed plan has three aspects that need clarification.

#### **Positive and Pleasant:**

- (i) As soon as your signature card reaches us, we will gladly open an account.
- (ii) We refund when the returned item is clean and resalable.
- (iii) When you travel on company expense, your approved fare is for tourist class

#### **Clear:**

- (i) Being an excellent lawyer, you can surely help us.



## Summer Exam-2017

### Solutions – Bus. Commn. & Report Writing

**Q.5.** Emphatic listening means to listen the objective of understanding the speaker's emotions, feelings, needs and wants. The speaker might have an issue that could be resolved by sharing it. Emphatic listening assists the listener in appreciating more fully the speaker's perspectives regardless of whether the listener agrees with the speaker.

Techniques involved in emphatic listening include:

- **Focus** – provide the speaker with undivided attention and avoid multitasking and interruptions.
- **Don't judge** – the listener must not minimize or trivialize the speaker's issue. Whilst it may seem insignificant to the listener the issue may well be hugely significant to the speaker.
- **Read the speaker** – this involves being alert to the emotions behind the words such as anger, fear, frustration or resentment. The emphatic listener should respond to the emotion as well as the words.
- **Be quiet** – pauses and silences are often as powerful as the words themselves. The listener should not feel obliged to reply immediately – the speaker will often identify the solution during a pause having processed the words they have just spoken.
- **Assure** – the listener should ask questions and restate what he perceives the speaker to have said in order to clarify his understanding. Once again this process will often prompt the speaker to identify his own solution.

**Total Marks 09**

**Q.6.** Answer will vary but must have the following:

- Get the reader's attention by mentioning benefits of the message to the reader.
- Build the reader's interest by emphasizing relevance of the message to the reader.
- 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.
- Motivate the reader to take action and state the positive result of the action. The action should have clarity and be easy to adopt.
- Present emotional and logical appeals in a balanced manner. Substantiate the appeal by presenting facts and evidence for complex ideas and recommendations.

**Total Marks 15**





## Summer Exam-2017

### Solutions – Bus. Commn. & Report Writing

- Q.7.** • Creating a particular impression – smile, firm handshake, punctuality, smart dress. 05  
**(a)** • Reinforcing spoken message indicating seriousness, interest and engagement – e.g. an emphatic gesture, sparkling eyes, disapproving frown.  
• Providing feedback – applause, fidgeting, yawn.  
• Establishing desired atmosphere – informal dress, respectful distance, friendly smile.

- Q.7. Personal space** 06  
**(b)** • This triggers first impressions, attitudes and generalizations about people. Grooming and dress tend to reflect a person's personality and attitude to a greater extent than mere physical looks.

#### **Movement and stillness**

- Consider the pace and pattern of movement.
- Brisk walking conveys determination.
- Stillness conveys calm, thoughtfulness and self-possession (although in a social gathering might convey aloofness and hostility).
- Movement without purpose conveys distraction, impatience and nervousness.

#### **Silence and sound**

- This largely depends on the culture.
- Silence in western society commonly conveys embarrassment and discomfort whereas in eastern society is more likely to convey peace and thoughtfulness.
- It may also be a negative gesture indicating hostility, rejection or a refusal to provide feedback.

#### **Proximity and contact**

- The term 'personal space' is generally used to describe the distance at which we feel comfortable with others. This varies with cultural norms, personal tastes and the specific relationship between two people.

**Total Marks 11**

- Q.8.** The answers may vary but cover letter needs to :

- Introduce you.
- Mention the job (or kind of job ) you're applying for (or looking for)
- Match your skills and experiences with the skills and experiences required by the job.
- Encourage the employer to read your resume.

A cover letter shouldn't be more than one page. It's only meant to be a summary of the information you put in your resume. Finish the cover letter with a call to action (for example, requesting an interview or asking to meet).

**Total Marks 10**



## Summer Exam-2017

### Solutions – Bus. Commn. & Report Writing

- Q.9.**
- Be careful when forwarding or replying to all.
  - Take care with sarcasm and humour.
  - Use clear and standard grammar and punctuation.
  - Avoid opening suspicious emails or attachment.
  - Avoid sending overly large attachment unless absolutely necessary.
  - Keep it simple – avoid using overly intricate colours and fonts.
  - Email is unsecure and never private.
  - Never send an email when upset or angry. You could draft an email but then hold off sending it for at least a few hours. Ask yourself how you would interpret the message if you were to receive the message you've just written.
  - If emailing multiple recipients ensure the communication is appropriate to all.
  - Hold off entering the recipient's email address until you've finished composing an email. This will ensure you don't send an incomplete or un-reviewed message prematurely.

**Total Marks 05**

**Q.10.** Executive Summary

The benefits of including an executive summary are that for senior people with little time it is the one section they will read. Therefore a succinct, clear and well written executive summary should always reach the reader.

The executive summary should include:

- What the report is about.
- What the problems are.
- The conclusions you arrived at.
- What you recommend.

**Total Marks 10**

**Q.11** The town planning generally includes public parks, shopping malls and sports facilities. the answers may vary but the proposal should include the following points:

- Objectives or intended outcomes
- explanation of provisions
- justification
- mapping
- community consultation
- project timeline
- strategic considerations
- Economic impact

**Total Marks 10**



## Summer Exam-2017

### Solutions – Bus. Commn. & Report Writing

- Never send an email when upset or angry. You could draft an email but then hold off sending it for at least a few hours. Ask yourself how you would interpret the message if you were to receive the message you've just written.
- If emailing multiple recipients ensure the communication is appropriate to all.
- Hold off entering the recipient's email address until you've finished composing an email. This will ensure you don't send an incomplete or un-reviewed message prematurely.

**Total Marks      05**

**Q.10. Executive Summary**

The benefits of including an executive summary are that for senior people with little time it is the one section they will read. Therefore a succinct, clear and well written executive summary should always reach the reader.

The executive summary should include:

- What the report is about.
- What the problems are.
- The conclusions you arrived at.
- What you recommend.

**Total Marks      10**

**Q.11. Answers will vary but must contain the following:**

- Introduction
- Problem details
- Reasons
- Impact on organizations
- Conclusion
- Recommendation

**Total Marks      10**

\*\*\*\*\*

# **Taxation**

**(Level-3)**

# Summer Exam-2017

## Solution - Taxation

- Q.1.** "Assessment" includes provisional assessment, re-assessment and amended assessment 02  
(a) and the cognate expressions shall be construed accordingly.
- (b) Collective Investment Scheme shall have the same meanings as are assigned under the 02  
Non-Banking Finance Companies Establishment and Regulation Rules, 2003
- (c) As provided in sub section 19C "electronic record" includes the contents of 02  
communications, transactions and procedures under this Ordinance, including  
attachments, annexes, enclosures, accounts, returns, statements, certificates, applications,  
forms, receipts, acknowledgements, notices, orders, judgments, approvals, notifications,  
circulars, rulings, documents and any other information associated with such  
communications, transactions and procedures, created, sent, forwarded, replied to,  
transmitted, distributed, broadcast, stored, held, copied, downloaded, displayed, viewed,  
read, or printed, by one or several electronic resources and any other information in  
electronic form.
- (d) As provided in sub section 22A Fast Moving Consumer Goods means consumer goods 02  
which are supplied in retail marketing as per daily demand of a consumer;

**Total Marks 08**

- Q.2. Associated Persons** means subject to sub-clause (ii), where two persons associate and 02  
(a) the relationship between the two is such that one may reasonably be expected to act in  
accordance with the intentions of the other, or both persons may reasonably be expected  
to act in accordance with the intentions of a third person;

two persons shall not be associates solely by reason of the fact that one person is an  
employee of the other or both persons are employees of a third person;

without limiting the generality of sub-clause (i) and subject to sub-clause (iv), the  
following shall be treated as associates, namely:

- (a) an individual and a relative of the individual;
- (b) members of an association of persons;
- (c) a member of an association of persons and the association, where the member,  
either alone or together with an associate or associates under another application  
of this section, controls fifty *per cent* or more of the rights to income or capital  
of the association;
- (d) a trust and any person who benefits or may benefit under the trust;
- (e) a shareholder in a company and the company, where the shareholder, either  
alone or together with an associate or associates under another application of this  
section, controls either directly or through one or more interposed persons:
- (i) fifty per cent or more of the voting power in the company;
- (ii) fifty per cent or more of the rights to dividends; or
- (iii) fifty per cent or more of the rights to capital; and
- (f) two companies, where a person, either alone or together with an associate or  
associates under another application of this section, controls either directly or  
through one or more interposed persons
- (iv) fifty per cent or more of the voting power in both companies;
- (v) fifty per cent or more of the rights to dividends in companies; or
- (vi) fifty per cent or more of the rights to capital in both companies.

## Summer Exam-2017

### Solution - Taxation

- (b) As provided in sub section in 29A "Sales Tax" means -- 02
- (a) the tax, additional tax, or default surcharge levied under this Act;
  - (b) a fine, penalty or fee imposed or charged under this Act; and
  - (c) any other sum payable under the provisions of this Act or the rules made there under;
- (c) As provided in sub section 27 "Retail Price", with reference to the Third Schedule, means the price fixed by the manufacturer, inclusive of all duties, charges and taxes (other than sales tax) at which any particular brand or variety of any article should be sold to the general body of consumers of, if more than one such price is so fixed for the same brand or variety, the highest of such price. Provided that the Board may through a general order specify zones of areas for the purpose of determination of highest retail price for any brand or variety of goods. 02

**Total Marks** **06**

**Q.3.**

	<b>Rs.</b>
Output tax:	
Supplies to registered persons 1,500,000 x 17%	255,000
Supplies to non-registered persons 500,000 x (17%+2%)	95,000
Exports 4,000,000x0%	Nil
Less: Input Tax	
Purchases from registered manufacturers (2,000,000 x 17%)	340,000
Purchases from registered retailers (N-2)	Nil
Purchases from non-registered persons (N-2)	Nil
Imports (1,500,000 x 17%)	255,000
	(595,000)
Excess amount of input tax (N-3)	(245,000)

- N-1:** In case of supplies to a non-registered person there will be charged a further tax @ 2% of the value of supplies besides charging tax at the normal rate of sales tax.
- N-2:** As retailer and non-registered person cannot issue tax invoices for supplies made by them, so a registered person buying goods from them cannot claim the credit / refund of input tax in respect of such purchases.
- N-3** Apparently there is no tax liability for the tax period and there is an excess amount of input tax which should be refunded. But due to application of section 8-B a person is required to pay at least 10% of the output tax for a tax period and any excess amount of input tax shall be carried forward to coming tax period for adjustment. The amount of tax payable for the tax period and the amount of input tax to carried forward shall be computed as below:

<b>Tax Payable</b>		
Total output tax (as above)	350,000	
Less: Input tax adjustable (90% of output tax)	315,000	
		35,000

**Summer Exam-2017**  
**Solution - Taxation**

<b>Input Tax carried forward</b>		
Total output tax		350,000
Less: Tax paid –Total Input Tax for the period	595,000	
Tax paid with return	35,000	
		(630,000)
Excess amount of input tax to be carried forward		(280,000)

**Total Marks 15**

**Q.4.** The Section 17 of the Federal Excise Act, 2005 explains the Records in the following paras:

Every person registered for the purposes of this Act shall maintain and keep for a period of six years or till such further period the final decision in any proceedings including proceedings for assessment, appeal, revision, reference, petition and any, proceedings before an Alternative Dispute Resolution Committee is finalized at his business premises or registered office in English or Urdu language the following records of excisable goods purchased, manufactured and cleared (including those cleared without payment of excise duty) by him or by his agent acting on his behalf in such form and manner as would permit ready ascertainment of his liability of duty, namely:-

- (a) records of clearances and sales made indicating the description, quantity and value of goods, name and address of the person to whom sales were made and the amount of the duty charged;
- (b) records of goods purchased showing the description, quantity and value of goods, name, address and registration number of the supplier and the amount of the duty, if any, on purchases;
- (c) records of goods cleared and sold without payment of duty;
- (d) records of invoices, bills, accounts, agreements, contracts, orders and other allied business matters;
  - record relating to gate passes, inward or outward, and transport receipts;
- (e) records of production, stocks and inventory;
- (f) records of imports and exports; and
- (g) such other records as may be specified by the Board

For any person or class of persons registered under this Act, or for any goods or class of goods the Board may specify or prescribe,-

- (a) to keep any other records for the purposes of this Act;
- (b) to use such electronic fiscal cash registers as may be approved by the Board; and
- (c) the procedure or software for electronic maintenance of records and filing of statements, documents or information by any person or class of persons.

Provisions of sub-sections (1) and (2) shall apply mutatis mutandis on services provided or rendered by a person registered under this Act.

**Total Marks 10**

## Summer Exam-2017

### Solution - Taxation

**Q.5.** As provided in section 147 of the income Tax Ordinance, 2001 advance tax paid by the taxpayer - (1) Subject to sub-section, (2) every taxpayer whose income was charged to tax for the latest tax year under this Ordinance or latest assessment year under the repealed Ordinance other than

- b) income chargeable to tax under sections 5, 6 and 7;
- c) income subject to deduction of tax at source under section 149; and
- d) income from which tax has been collected under Division II or deducted under Division III or deducted or collected under Chapter XII and for which no tax credit is allowed as a result of sub-section (3) of section 168, shall be liable to pay advance tax for the year in accordance with this section.

(2) This section does not apply to an individual where the individual's latest assessed taxable income excluding income referred to in clauses (a), (b), (ba), (c) and (d) of sub-section (1) is less than five hundred thousand rupees.

(4) Where the taxpayer is an association of persons or a company, the amount of advance tax due for a quarter shall be computed according to the following formula, namely:-

$$(A \times B/C) - D$$

Where-

- A is the taxpayer's turnover for the quarter;
- B is the tax assessed to the taxpayer for the latest tax year
- C is the tax payer's turnover for the latest tax year; and

D is the tax paid in the quarter for which a tax credit is allowed under section 168 (4A) any taxpayer who is required to make payment of advance tax in accordance with sub-section (4), shall estimate the tax payable for the relevant tax year, at any time before the second installment is due. In case the tax payable is likely to be more than the amount that the taxpayer is required to pay under sub-section (4), the taxpayer shall furnish to the Commissioner on or before the due date of the second quarter an estimate of the amount of tax payable by the taxpayer and thereafter pay fifty per cent of such amount by the due date of the second quarter of the tax year after making adjustment for the amount, if any, already paid in terms of sub-section (4). The remaining fifty per cent of the estimate shall be paid after the second quarter in two equal installments payable by the due date of the third and fourth quarter of the tax year.

4AA Tax liability under shall also be taken into account while working out payment of advance tax liability under this section.

4B Where the taxpayer is an individual having latest assessed income of five hundred thousand rupees or more as determined under sub-section (2), the amount of advance tax due for a quarter shall be computed according to the following formula, namely: -

$$(A/4) - B$$

Where -

- A is the tax assessed to the taxpayer for the latest tax year or latest assessment year under the repealed Ordinance; and
- B is the tax paid in the quarter for which a tax credit is allowed under section 168, other than tax deducted under section 149



## Summer Exam-2017

### Solution - Taxation

(5) Advance tax is payable by an individual to the Commissioner-

- a) in respect of the September quarter, 011 or before the 15th day of September;
- b) in respect of the December quarter, on or before the 15th day of December;
- c) in respect of the March quarter, on or before the 15th day of March; and
- d) in respect of tile June quarter, on or before the 15th day of June.

(5A) Advance tax shall be payable by an association of persons or a company to the **Commissioner -**

- (a) in respect of the September quarter, on or before the 25<sup>th</sup> day of September;
- (b) in respect of the December quarter, on or before the 25<sup>th</sup> day of December;
- (c) in respect of the March quarter, on or before the 25<sup>th</sup> day of March; and
- (d) in respect of the June quarter, on or before the 15<sup>th</sup> day of June.

(5B) Adjustable advance tax on capital gain from sale of securities shall be chargeable as under, namely:--

**TABLE**

S. No.	Period	Rate of Advance Tax
1	2	3
1	Where holding period of a security is less than six months	2% of the capital gains derived during the quarter.
2	Where holding period of a security is more than six months but less than twelve months.	1.5% of the capital gains derived during the quarter

Provided that such advance tax shall be payable to the Commissioner within a period of twenty-one days after the close of each quarter:

Provided further that the provisions of this sub-section shall not be applicable to individual investors.

(6) If any taxpayer who is required to make payment of advance tax under sub-section (1) estimates at any time before the last installment is due, that the tax payable by him for the relevant tax year is likely to be less than the amount he is required to pay under sub-section (1), the taxpayer may furnish to the Commissioner an estimate of the amount of the tax payable by him, and thereafter pay such estimated amount, as reduced by the amount, if any, already paid under sub-section (1), in equal installments on such dates as have not expired.

(6A) Notwithstanding anything contained in this section, where the taxpayer is a company or an association of persons, advance tax shall be payable by it in the absence of last assessed income or declared turnover also. The taxpayer shall estimate the amount of advance tax payable on the basis of quarterly turnover of the company or an association of persons, as the case may be, and thereafter pay such amount after, -

## Summer Exam-2017

### Solution - Taxation

- (a) taking into account tax payable under sections 113 and 113C as provided in sub-section (4AA);and
- (b) making adjustment for the amount (if any) already paid

(7) The provisions of this Ordinance shall apply to any advance tax due under this section as if the amount due were tax due under an assessment order.

(8) A taxpayer who has paid advance tax under this section for a tax year shall be allowed a tax credit for that tax in computing the tax due by the taxpayer on the taxable income of the taxpayer for that year.

(9) A tax credit allowed for advance tax paid under this section shall be applied in accordance with sub-section (3) of section 4.

(10) A tax credit or part of a tax credit allowed under this section for a tax year that is not able to be credited under sub-section (3) of section 4 for the year shall be refunded to the taxpayer in accordance with section 170.

**Total Marks 15**

**Q.6.** 236A. Advance tax at the time of sale by auction.- (1) Any person making sale by public auction or auction by a tender, of any property or goods (including property or goods confiscated or attached) either belonging to or not belonging to the Government, local Government, any authority, a company, a foreign association declared to be a company under sub-clause (vi) of clause (b) of sub-section (2) of section 80, or a foreign contractor or a consultant or a consortium or Collector of Customs or Commissioner of Inland Revenue or any other authority, shall collect advance tax, computed on the basis of sale price of such property and at the rate specified in Division VIII of Part IV of the First Schedule, from the person to whom such property or goods are being sold.

(2) The credit for the tax collected under sub-section (1) in that tax year shall, subject to the provisions of section 147, be given in computing the tax payable by the person purchasing such property in the relevant tax year or in the case of a taxpayer to whom section 9813 or section 145 applies, the tax year, in which the "said date" as referred to in that section, falls or whichever is later.

#### **Explanation.**

For the purposes of this section, sale of any property includes the awarding of any lease to any person, including a lease of the right to collect tolls, fees or other levies, by whatever name called.

(3) Notwithstanding the provisions of sub-section(2), tax collected on a lease of the right to collect tolls shall be final tax.

**Total Marks 08**

**Q.7. 183. Exemption from penalty and default surcharge.-**

The Federal Government may, by notification in the official Gazette, or the Board by an order published in the official Gazette for reasons to be recorded in writing, exempt any person or class of persons from payment of the whole or part of the penalty and default surcharge payable under this Ordinance subject to such conditions and limitations as may be specified in such notification or, as the case may be, order.

**Total Marks 08**

**Summer Exam-2017**  
**Solution - Taxation**

**Q.8. Computation of Taxable Income**

Net profit as per profit and loss account		400,000
<b>Add: Deductions not admissible (N-1)</b>		
Income tax (N-2)	30,000	
Tax at source (N-3)	15,000	
Salary (paid without deduction of tax (N-4)	200,000	
Salary paid to Mr. A (N-5)	60,000	
Interest paid to Partner B (N-5)	5,000	
Salary paid in cash (20,000 x 12) (N-6)	240,000	
Contribution to unrecognized provident fund	30,000	
Donation to unapproved institutions	10,000	
Donation to approved institutions (N-7)	20,000	
Salary and allowance to Manager (N-8)	Nil	
Accounting depreciation (N-9)	55,000	
		665,000
Less: tax depreciation (N-9)		1,065,000
		45,000
Total taxable income		1,020,000

**Notes:**

- N-1:** The expenses/payments which are not allowed as deduction under the Income Tax.
- N-2:** Income tax paid is not an expense either, it is an appropriation of profit so should not be allowed as deduction.
- N-3:** Tax deducted at source by the customer is an advance payment of tax on behalf of the firm and not an expense.
- N-4:** Any payment made without deduction of tax, if applicable, is inadmissible.
- N-5:** Any payment to a partner on account of salary, interest, etc. is not allowed as deduction.
- It is immaterial that the tax at source has been deducted or not.
- N-6:** Salary exceeding Rs. 15,000 per month should be paid through cheque or direct transfer to employees' bank account otherwise, it will be inadmissible.
- N-7:** Donation to approved institution is not allowed as direct deductions rather, a tax credit is allowed at the average rate of tax.
- N-8:** Any payment made to employees on account of salaries and allowances, etc. is allowed as deduction against business income.
- N-9:** Accounting depreciation is not allowed as deduction. The depreciation computed as per third schedule. is allowed as deduction.

**Total Marks 15**

**Summer Exam-2017**  
**Solution - Taxation**

**Q.9.**

**Mr. Ainuddin khan**  
**Tax Year: 2017**  
**Status: Resident Individual**

<b>COMPUTATION OF TAXABLE INCOME</b>	<b>Rs.</b>	<b>Rs.</b>
Pay		264,000
Bonus (264,000 x 20%)		52,800
House rent		120,000
Co. maintained car – Rs. 500,000@5%		25,000
Residential electricity	20,000	
Petrol for residential generator	5,000	
Gas bills	6,000	
Telephone bill		13,885
Club bills		4,000
internet usage reimbursement		9,000
<b>Pension Exempt</b>		
Total income from salary chargeable at normal rates of tax		<u>519,685</u>
Dividend Income chargeable to tax as separate block u/s 5 (70,000/o.90)	<u>77,777</u>	

**Note:**

1. Pension is an exempt income; therefore, the same is not included in the total income.
2. Tax deducted from dividend income is final discharge of tax liability.
3. Amount of Zakat for deduction cannot be worked out in the absence of value of WAPDA bonds.

It is assumed that internet personal usage expenses are reimbursed by the employer

**Total Marks      15**

# **Financial Reporting**

**(Level-4)**



# Summer Exam-2017

## Solution – Financial Reporting

**Ans.** *Extracts to financial statements*

<b>1.</b>		2015	
		Rs.	
	<i>Statement of financial position</i>		
	Assets		
	Cos of asset $[150,000 + \{40,000 \times (1.12)^{-5}\}]$	172,700	
	Accumulated depreciation $(172,700/5)$	(34,540)	
		138,160	
	Liabilities		
	Provision of dismantling and site restoration $(22,700 + 2,740)$	25,440	
	 <i>Profit or loss account</i>		
	Depreciation	34,540	
	Interest expense	2,740	
		37,280	

**Total Marks 10**

**Ans.** 2. The entity should not recognize any revenue and expense out the cost incurred in the current year. The reason being the revenue from services can only be recognized if the recovery of revenue is probable.

**Total Marks 05**

**Ans.** 3. The cost incurred in previous year cannot be reinstated as cost of intangible asset. Only the cost incurred after the satisfaction of criteria can be recognized as intangible asset.

**Total Marks 05**

<b>Ans.</b>		Rs. (000)	Rs. (000)
<b>4.</b>	Tax Expense		
	Current tax expense (W-1)		1,146
	Deferred tax expense (W-2)		827
			1,973

Reconciliation of tax expense with tax on accounting profit

Tax expense		1,973
Tax on accounting profit		2,002
Effect of: -		
Donation $(60 \times 31\%)$		19
Change in tax rate $(4,650 \times 1\%)$		(48)
		(29)
		1,973

W – 1 Current tax expense		
Profit before tax		6,256
Add: Accounting depreciation	526	



# Summer Exam-2017

## Solution – Financial Reporting

Provision for doubtful debts	150	
Donation to un-approved institutions	60	736
Less: Tax depreciation	836	
Bad debts written off	25	(861)
Taxable profit		6,131
Un-used tax losses		(2,550)
Taxable profit for the year		3,581
Current tax @ 32%		1,146

### W – 2 Deferred tax – expense

#### Opening deferred tax working

Taxable temporary differences	4,650
Un-used tax losses	(2,550)
Net taxable temporary differences	2,100
Deferred tax @ 32% opening	672
Deferred tax – closing	

#### Closing deferred tax working

Taxable temporary differences	
Opening taxable temporary differences	4,650
Difference of tax less accounting depreciation	310
Deductible temporary differences	
Provision for doubtful debts (150 – 25)	(125)
	4,835
Deferred tax @ 31% - closing	1,499

Difference of closing and opening deferred tax to be charged to profit & loss

**Total Marks 10**

**Ans.  
5.**

	Parent Co.	Subsidiary Co.	Adjustments	Consolidated
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Revenue	100,550	50,255	(8,125)	142,680
Cost of revenue	(80,650)	(23,655)	7,185	(97,120)
Gross profit	19,900	26,600	(940)	45,560
Administrative expenses	(3,556)	(2,450)	(1,250)	(7,256)
Selling expenses	(2,664)	(8,630)	--	(11,294)
	(6,220)	(11,080)	(1,250)	(18,550)
Operating profit	13,680	15,520	(2,190)	27,010
Other income	8,660	--	(5,350)	3,310
Finance cost on loan	(255)	(2,500)	1,750	(1,005)
Profit before tax	22,085	13,020	(5,790)	29,315
Tax expense	(6,250)	(1,220)	--	(7,470)
Profit after tax	15,835	11,800	(5,790)	21,845
Profit attributable to				
Owners of parent				17,501
Non-controlling interest	W-2			4,344



# Summer Exam-2017

## Solution – Financial Reporting

				21,845
Other comprehensive income				
Revaluation surplus	2,000	250	--	2,250
Gain on at FVTOCI investments	1,520	(550)		970
	3,520	(300)		3,220





# Summer Exam-2017

## Solution – Financial Reporting

Other comprehensive income attributable to				
Owners of parent				3,340
Non-controlling interest	(300x40%)			(120)
				3,220
Total comprehensive income				
Attributable to				
Owners of parent				20,841
Non-controlling interest				4,224
				25,065

### Working note 1

	Rs. (000)	Rs. (000)
Cost of sales account	1,200	
Goodwill account		1,200
Recognition of impairment loss		
Other income account (6,000x60%)	3,600	
Dividend account		3,600
Elimination of dividend income from group financial statements		
Other income account (2,500 x 70%)	1,750	
Interest expense account		1,750
Elimination of intra group interest income and expense		
Property, plant and equipment account (2,000/4)	500	
Cost of sales account		500
Elimination of extra depreciation from group financial statements		
Sales account	8,125	
Cost of sales		8,125
Elimination of intra group sales		
Cost of sales (1,200 x 25/125) =240	240	
Inventory account		240
Elimination of un-realized profit on un-sold goods at the year end		
Administrative expenses		
Parent company	1,250	
Recognition of management fee		1,250

### Working 2

	Rs. (000)	Rs. (000)
Share of NCI in profit or loss account		
Profit after tax		11,800
Adjustment for: -		
Impairment loss on goodwill	(1,200)	
Extra depreciation	500	
Un-realized profit on of inventory	(240)	(940)
Adjusted profit		10,860
Non-controlling interest share @ 40%		4,344

**Total Marks 23**



# Summer Exam-2017

## Solution – Financial Reporting

Ans.  
6.

Year 1				Rs.	Rs.
Dr.	Right to use asset			4,590,459	
Cr.	Lease liability	W-1			4,440,459
Cr.	Bank /Cash				150,000
	Recognition of lease in the books of lessee				
Dr.	Bank			30,000	
Cr.	Leasehold improvement				30,000
	Recognition of incentive relating to leasehold improvements				
Dr.	Interest expense	W-2		456,937	
Cr.	Lease liability				456,937
	Recognition of interest expense				
Dr.	Lease liability	W-1		1,200,000	
Cr.	Bank				1,200,000
	Recognition of payment of lease				
Dr.	Depreciation	W-3		918,092	
Cr.	Right to use asset				918,092
	Recognition of depreciation expense				
<b>Year 2</b>					
Dr.	Interest expense	W-2		413,355	
Cr.	Lease Liability				413,355
	Recognition of depreciation expense				
Dr.	Lease liability	W-1		1,200,000	
Cr.	Bank				1,200,000
	Recognition of Payment expense				
Dr.	Lease Liability	W-3		918,092	
Cr.	Right to use asset				918,092
	Recognition of depreciation expense				
Dr.	Right to use asset			2,191,144	
Cr.	Lease liability				2,191,144
	Recognition of change in lease term effect				
<b>Year 3</b>					
Dr.	Interest expense	W-2		539,570	
Cr.	Lease liability				539,570
	Recognition of interest expense				
Dr.	Lease Liability	W-1		1,200,000	1,200,000
Cr.	Bank				
	Recognition of payment of lease				
Dr.	Depreciation	W-3		824,237,	
Cr.	Right to use asset				824,237
	Recognition of depreciation expense				



# Summer Exam-2017

## Solution – Financial Reporting

Working note 1

Lease liability calculation

Rent per Year	Years	Total	Discount Rate 12%	Rent x Discount Rate
100,000	59	5,900,000	44,405	4,440,459
<b>Amendment in Lease term</b>				
100,000	71	7,100,000	52.019	5,201,894
<b>Working 2</b>				
Opening Balance	Installment	Interest	Closing Balance	
4,440,459	-100,000	44,405	4,384,863	
4,384,863	-100,000	43,849	4,328,712	
4,271,999	-100,000	43,287	4,271,999	
4,214,719	-100,000	42,720	4,214,719	
4,156,866	-100,000	42,147	4,156,866	
4,098,435	-100,000	41,569	4,098,435	Year 1
4,039,419	-100,000	40,984	4,039,419	
3,979,814	-100,000	40,394	3,979,814	
3,919,612	-100,000	39,798	3,919,612	
3,858,808	-100,000	39,196	3,858,808	
3,797,396	-100,000	38,588	3,797,396	
3,735,370	-100,000	37,974	3,735,370	
3,672,724	-100,000	37,354	3,672,724	
3,609,451	-100,000	36,727	3,609,451	
3,545,545	-100,000	36,095	3,545,545	
3,481,001	-100,000	35,455	3,481,001	
3,415,811	-100,000	34,810	3,415,811	
3,349,969	-100,000	34,158	3,349,969	Year 2
3,283,469	-100,000	33,500	3,283,469	
3,283,469	-100,000	32,835	3,216,303	
3,216,303	-100,000	32,163	3,148,466	
3,148,466	-100,000	31,485	3,079,951	
3,079,951	-100,000	30,800	3,010,751	
<b>Change in lease term</b>				
5,201,894	-100,000	47,684	5,149,578	
5,149,578	-100,000	47,201	5,009,678	
5,096,783	-100,000	46,721	5,043,503	
5,043,503	-100,000	76,232	4,989,735	
4,989,735	-100,000	45,739	4,935,475	
4,935,475	-100,000	45,242	4,880,716	Year 3
4,880,716	-100,000	44,740	4,825,456	
4,825,456	-100,000	44,233	4,769,690	
4,769,690	-100,000	43,722	4,713,412	
4,713,412	-100,000	43,206	4,656,618	
4,656,618	-100,000	42,686	4,599,304	
4,599,304	-100,000	42,160	4,541,464	
<b>Working 3</b>				
	Opening Balance	Depreciation	Closing Balance	
Year 1	4,590,459	824,237	3,548,160	
Year 2	3,672,367	918,092	2,754,275	



# Summer Exam-2017

## Solution – Financial Reporting

Change in lease term				
Year 3	4,945,419	824,237	3,548,160	
Year 4	3,548,160	824,237	2,661,120	
Year 5	2,661,120	824,237	1,774,080	
Year 6	1,774,080	824,237	887,040	
Year 7	887,040	824,237	0	

**Ans. 7.** a) The restructuring cost cannot be recognized as provision as the plan has not been announced by the reporting date. Under IAS 37 the provision can only be recognized if there is a present obligation as a result of past obligating event which require probable out flow of the entity and is reliably estimable. In the present situation as the plan has not been announced by the reporting date no provision is required to be recognized.

b) The provision of dismantling and site restoration is required to be recognized under IAS 37 and to be added in cost of asset. The present value of provision is Rs. 22,245 (0.635 x 35,000). The double entry to be recognized is as under: -

31-12-2015

Property, plant and equipment	22,245
Provision for site restoration	22,245

For recognition of provision

30-06-2016

Depreciation (22,245/4)	5,561
Accumulated depreciation	5,561

Extra depreciation to be recognized at the year end

30-06-2016

Interest expense (22,245x12%)/2	1,335
Provision for site restoration	1,335

Un-winding interest expense to be recognized.

c) The lease contract B has become onerous as the sub-lease rental is less than rental expense to be paid by the company. The expected loss from onerous contract B Rs. 75,000 (25,000x3) is to be recognized immediately as provision under IAS 37. The contract B is not onerous therefore, no provision is required on this contract.

**Total Marks 12**

**Ans. 8.** a) The offsetting is allowed only if the entity has the legal right or any IFRS allow the offsetting of certain balances. As the lender of the finances the bank has not accepted the receivable from the associated company therefore, the loan payable to bank will be shown as liability and the receivable from associated company will be shown as an asset in the financial statements of the entity. However, the interest income and interest expense can be offset with each other as there is no impact on performance of the entity however, this effect must be disclosed in the financial statements.

b) The loan will be presented under the heading of current liabilities because there was no unconditional right exists at the reporting date of deferment of loan after one year. However, the restructuring and decision of bank will be disclosed in the financial statements.

c) The net assets of subsidiary company must have been measured under fair value method at the date of acquisition because this is required by IFRS and no accounting policy can be formulated



## Summer Exam-2017

### Solution – Financial Reporting

against the provisions of IFRS. However, for the sake of argument the fair value of date acquisition is the historic cost as the subsidiary has become part of parent company at the date of acquisition and fair value of date of acquisition is historic cost for the group. Therefore the goodwill must have been reduced by Rs. 5.5 million in the Financial Statements.

**Total Marks 15**

# **Management Accounting**

**(Level-4)**



## Summer Exam-2017 Solution - Management Accounting

- Q.1. (a)** Objectives of Management Accounting. The basic objective of management accounting is to assist the management in performing its functions effectively. The functions of the management are planning, organizing, directing and controlling. **05**

**The objectives are:**

- 1. Assistance in Planning and Formulation of Future Policies**
- 2. Helps in the Interpretation of Financial Information**
- 3. Helps in Controlling Performance**
- 4. Helps in Organizing**
- 5. Helps in the Solution of Strategic Business Problems**
- 6. Helps in Coordinating Operations**
- 7. Helps in Motivating Employees and Others.**

The Role of Management Accounting in the Organization. The purpose of management accounting in the organization is to support competitive decision making by collecting, processing, and communicating information that helps management plan, control, and evaluate business processes and company strategy.

- (b)** **10**

- (i) Net income**

A current or future cost that will differ among alternatives. For example, if a company is deciding whether to expand its sales territory, the real estate tax and depreciation on the company's headquarters building is not relevant. The additional travel expenses to the new territory and the additional sales from the new territory are relevant to the decision.

- (ii) Variable Cost**

A method of product costing in which only variable manufacturing overhead is included as a product cost that flows through the manufacturing accounts (i.e., Work-in-Process Inventory, Finished-Goods Inventory, and Cost of Goods Sold). Fixed manufacturing overhead is treated as a period cost.

- (iii) Differential Cost**

Differential cost is the difference between the cost of two alternative decisions, or of a change in output levels. The concept is used when there are multiple possible options to pursue, and a choice must be made to select one option and drop the others.

- (iv) Opportunity/Imputed Cost**

In economics, an implicit cost, also called an imputed cost, implied cost, or notional cost, is the opportunity cost equal to what a firm must give up in order to use a factor of production for which it already owns and thus does not pay rent. It is the opposite of an explicit cost, which is borne directly.

- (v) Replacement Cost**

The term replacement cost or replacement value refers to the amount that an entity would have to pay to replace an asset at the present time, according to its current worth. In the insurance industry, "replacement cost" or "replacement cost value" is one of several method of determining the value of an insured item.

**Total Marks 15**



## Summer Exam-2017

### Solution - Management Accounting

**Q.2. (i)** Break-even point in units, using the equation approach: **03**

$$\text{Rs. } 24X - (\text{Rs. } 15 + \text{Rs. } 3)X - \text{Rs. } 900,000 = 0$$

$$\text{Rs. } 6X = \text{Rs. } 900,000$$

$$X = \frac{\text{Rs. } 900,000}{\text{Rs. } 6} = 150,000 \text{ units}$$

**(ii)** Net Income = 300,000 x 110% **03**

$$= 330,000 \text{ units}$$

$$\text{Net income} = (330,000)(\text{Rs. } 24 - \text{Rs. } 18) - \text{Rs. } 900,000$$

$$= (330,000)(\text{Rs. } 6) - \text{Rs. } 900,000$$

$$= \text{Rs. } 1,980,000 - \text{Rs. } 900,000 = \text{Rs. } 1,080,000$$

**(iii)** Target net income = Rs. 300,000 (from original problem data) **03**

$$\text{New unit purchase price} = \text{Rs. } 15 \times 130\% = \text{Rs. } 19.5$$

**Volume of sales rupees required:**

Volume of sales rupees required =  
fixed expenses + target net profit / Contribution-margin ratio

$$= \frac{\text{Rs. } 900,000 + \text{Rs. } 300,000}{\frac{\text{Rs. } 24 - \text{Rs. } 19.5 - \text{Rs. } 3}{\text{Rs. } 24}} = \frac{\text{Rs. } 1,200,000}{0.0625}$$

$$= \text{Rs. } 19,200,000$$

**(iv)** Let P denote the selling price that will yield the same contribution margin ratio: **06**

$$\frac{\text{Rs. } 24 - \text{Rs. } 15 - \text{Rs. } 3}{\text{Rs. } 24} = \frac{P - \text{Rs. } 19.5 - \text{Rs. } 3}{P}$$

$$0.25 = \frac{P - \text{Rs. } 22.5}{P}$$

$$0.25P = P - \text{Rs. } 22.5$$

$$\text{Rs. } 22.5 = 0.75P$$

$$P = \text{Rs. } 22.5 / 0.75$$

$$P = \text{Rs. } 30$$

Check: New contribution margin ratio is:

$$\frac{\text{Rs. } 30 - \text{Rs. } 22.5}{\text{Rs. } 30} = 0.25 = 25\%$$

**Total Marks 15**

**Q.3. Data:**

S = 90,000 gallons

O = Rs. 300 per order

C = Rs. 1.50 per gallon per year

**Calculation:**

$$\text{EOQ} = \sqrt{\frac{2 \times S \times O}{C}} = \sqrt{\frac{2 \times 90,000 \times \text{Rs. } 300}{\text{Rs. } 1.50}} = \sqrt{\frac{54,000,000}{\text{Rs. } 1.50}} = \sqrt{36,000,000}$$

$$= \underline{\underline{6,000}} \text{ gallons}$$

**Total Marks 05**





## Summer Exam-2017 Solution - Management Accounting

- Q.4.** Since there were no variances in 2016, actual production and budgeted production must **04**  
**(a)** have been the same.

$$\begin{aligned} \text{Predetermined fixed overhead rate} &= \frac{\text{budgeted fixed overhead}}{\text{budgeted production}} \\ &= \frac{\text{Rs. 450,000}}{225,000} = \text{Rs. 2 per unit} \end{aligned}$$

Standard Cost per Unit	(Rs.)
Direct material	8
Direct labor	2
Variable overhead	5
Standard cost per unit under variable costing	15
Fixed overhead per unit under absorption costing	2
Standard cost per unit under absorption costing	<u>17</u>

**(b).a**

**FY NESTLE & SONS**  
**ABSORPTION-COSTING INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**02**

	Rs.
Sales revenue (187,500 units sold at Rs. 20 per unit)	3,750,000
Less: Cost of goods sold (at standard absorption cost of Rs. 17 per unit)	<u>3,187,500</u>
Gross margin	562,500
Less: Selling and administrative expenses:	
Variable (at Rs. 1 per unit)	187,500
Fixed	75,000
Net income	<u><u>300,000</u></u>

**(b).b**

**FY NESTLE & SONS**  
**ABSORPTION-COSTING INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**02**

	Rs.
Sales revenue (187,500 units sold at Rs. 20 per unit)	3,750,000
Less: Variable expenses:	
Variable manufacturing costs (at standard variable cost of Rs. 15 per unit)	2,812,500
Variable selling and administrative costs (at Rs. 1 per unit)	<u>187,500</u>
Contribution margin	750,000
Less: Fixed expenses	
Fixed manufacturing overhead	450,000
Fixed selling and administrative expenses	75,000
Net income	<u><u>225,000</u></u>



## Summer Exam-2017 Solution - Management Accounting

	Rs.	
(c) Cost of goods sold under absorption costing	3,187,500	04
Less: Variable manufacturing costs under variable costing	<u>2,187,500</u>	
Subtotal	375,000	
Less: Fixed manufacturing overhead as period expense under variable costing	400,000	
<b>Total</b>	<u>(75,000)</u>	
Net income under variable costing	225,000	
Less: Net income under absorption costing	300,000	
<b>Difference in net income</b>	<u>(75,000)</u>	

(d) Difference in reported income = difference in fixed overhead expensed under absorption and variable costing 03

[change in inventory in units] x [predetermined fixed overhead rate per unit]

$$= (37,500 \text{ units}) \times (\text{Rs. } 2 \text{ per unit})$$

$$= \text{Rs. } 75,000$$

As shown in requirement (2), reported income is Rs. 75,000 lower under variable costing

**Total Marks 15**

**Q.5.** Sales are collected over a two-month period, 40% in the month of sale and 60% in the following month. December receivables of Rs. 324,000 equal 60% of December's sales; thus, December sales total Rs. 540,000 (Rs. 324,000 / 6). Since the selling price is Rs. 40 per unit, Toy Land Plastics sold 13,500 units (Rs. 540,000 / 40). 05

(a)

Receivables	324,000	60% equal sales
Sales	540,000	
Sold	13,500	Units

(b) Since the company expects to sell 15,000 units, sales revenue will total Rs. 600,000 (15,000 units x Rs. 40) 05

Expects to sell	15,000	<b>units</b>
	15000 Units x Rs40	
	per unit = Rs	
Sales Revenue	600,000	

(c) Toy Land Plastics collected 40% of February's sales in February, or Rs. 235,200. thus, February's sales total Rs. 588,000 (Rs. 235,200 / 0.4). Combining January sales (Rs. 228,000 + Rs. 342,000), February sales (Rs. 588,000), and March sales (Rs. 60,000), the company will report revenue of Rs. 1170,000 05

Sales February 40%	588,000	235200
		<u>0.40</u>
Sales in Jan (60%)	570,000	<u>342000</u>
		60%
Feb. Sales	588,000	
Mar. Sales	600,000	

(d) Sixty percent of March's sales will be outstanding, or (Rs. 600,000 x 60%). 05

Sixty percent of March's sales will be outstanding      360,000



## Summer Exam-2017 Solution - Management Accounting

**Total Marks 20**

**Q.6.**

Year	Cash (benefit) (Rs.)	Annual Depreciation* (Rs.)	Taxable Income (Rs.)	Income Tax (Rs.)	Net After Tax Cash inflow (Rs.)
			(2) - (3)	(4) x 50%	(2) - (5)
(1)	(2)	(3)	(4)	(5)	(6)
1	50,000	20000	30,000	15000	35,000
2	80,000	20000	60,000	30000	50,000
3	80,000	20000	60,000	30000	50,000
4	80,000	20000	60,000	30000	50,000
5	70,000	20000	50,000	25000	45,000
6	60,000	20000	40,000	20000	40,000
7	50,000	20000	30,000	15000	35,000
8	40,000	20000	20,000	10000	30,000
9	30,000	20000	10,000	5000	25,000
10	20,000	20000	0	0	20,000
					380,000
Cash inflow from salvage value at end of economic life					0
					<b>Rs. 380,000</b>

**(a)**

**Recovery Initial Outlay**

**2.5**

Year	Cash Flow	Needed	Balance	Payback Years Required	
1	35,000	200000	165,000	1	
2	50,000	165,000	115,000	1	
3	50,000	115,000	65,000	1	
4	50,000	65,000	15,000	1	
5	45,000	15,000	0	0.33	15000 45000
So = 4.33 years					

**(b)**

Net Income without deduction for depreciation	380,000
Less depreciation	(200,000)
Net Income for Economic life	<b>180,000</b>

**2.5**

Average annual return on original Investment =

$$\frac{\text{Net Income Economic life}}{\text{Original investment}}$$

$$\frac{180,000}{10 \text{ year}} \div 200,000 = 9\%$$



## Summer Exam-2017

### Solution - Management Accounting

(c) 2.5

Year	Cash (Outflow) Inflow	Present Value of Rs. 1 10%	Net Present Value of Cash Flow
0	(200,000)	1.000	(200,000.00)
1	35,000	0.909	31,818.18
2	50,000	0.826	41,322.31
3	50,000	0.751	37,565.74
4	50,000	0.683	34,150.67
5	45,000	0.621	27,941.46
6	40,000	0.564	22,578.96
7	35,000	0.513	17,960.53
8	30,000	0.467	13,995.22
9	25,000	0.424	10,602.44
10	20,000	0.386	7,710.87
		<b>Present Value</b>	<u>245,646.39</u>
		<b>Net Present Value</b>	<u><u>45,646.39</u></u>

(d) 2.5

Year	Cash (Outflow) Inflow	Present Value of Rs. 1 15%	Net present Value of Cash Flow	Present Value of Rs. 1 16%	Net Present Value of Cash Flow
0	(200,000)	1.000	(200,000.00)	1.000	(200,000.00)
1	35,000	0.870	30,434.78	0.862	30,172.41
2	50,000	0.756	37,807.18	0.743	37,158.15
3	50,000	0.658	32,875.81	0.641	32,032.88
4	50,000	0.572	28,587.66	0.552	27,614.55
5	45,000	0.497	22,372.95	0.476	21,425.09
6	40,000	0.432	17,293.10	0.410	16,417.69
7	35,000	0.376	13,157.80	0.354	12,384.03
8	30,000	0.327	9,807.05	0.305	9,150.76
9	25,000	0.284	7,106.56	0.263	6,573.82
10	20,000	0.247	4,943.69	0.227	4,533.67
			<u>204,386.60</u>		<u>197,463.07</u>
			<u><u>4,386.60</u></u>		<u><u>(2,536.93)</u></u>

$$\text{Discount cash flow rate of return} = 15\% + \left[ \frac{(1\%) 4,386.60}{6,923.53} \right]$$

$$= 15\% + 0.63\% = \mathbf{15.63\%}$$

**Total Marks 10**



## Summer Exam-2017 Solution - Management Accounting

- Q.7.** The selling price for each product is higher than the variable cost of purchasing each product externally; therefore profit will be maximized by making the products in-house or purchasing them externally, up to the full amount of the annual sales demand. **10**
- (a)**

Product	Alpha	Beta	Gama	Hexa
	Rs.	Rs.	Rs.	Rs.
Variable cost per unit, in-house manufacture	7.5	10.5	9.0	10.5
Cost of external purchase (outsourcing)	12.0	17.7	15.75	16.5
Extra cost of outsourcing, per unit	4.5	7.2	6.75	6.0
Machine hours per unit, in-house production	0.38	0.75	0.45	0.6
Extra cost of outsourcing, per machine hour saved	Rs. 11.84	Rs. 9.6	Rs. 15	Rs. 10
Priority for in-house production	<b>2nd</b>	<b>4th</b>	<b>1st</b>	<b>3rd</b>

- (b)** The Cost-Minimizing and Profit-Maximizing budget is as follows: **10**

Product	Units	Machine hours	Total Variable Cost
In-house production:			Rs.
Gama	4,500	*2,025	40,500
Alpha	6,000	**2,280	45,000
Hexa (balance)	1,575	***945	16,538
<b>Variable Cost – In house Production</b>		<u>5,250</u>	<b>102,038</b>
Hexa – out sourced	5,925		97,763
Beta - out sourced	9,000		<u>159,300</u>
<b>Variable Cost – out Sourced production</b>			<b>257,063</b>
<b>Total variable cost</b>			<u><b>359,100</b></u>

**Machine hours working:**

\* Gama Units x Gama in house production (4500 x 0.45) = 2,025

\*\* Alpha Units x Alpha in house production (6000 x 0.38) = 2,280

\*\*\* Hexa (balance) (total machine hours – gama M.hrs – Alpha M. hrs) (5,250 – 2,025 – 2,280) = 945

**Total Marks 20**

\*\*\*\*\*

# **Audit, Assurance & Ethics**

**(Level-4)**



**Summer Exam-2017**  
**Solutions – Audit, Assurance & Ethics**

**Q.1 Up to two marks for explaining each difference**

**10**

Particulars	Internal Auditor	External Auditor
Objective	Their objective is to report on adequacy and effectiveness of accounting and internal control systems. Also report on risk management procedures of the entity	Express opinion on truth and fairness of financial statements
Reporting lines	The internal audit function generally reports to Audit committee of the Board or those charged with governance.	Report to shareholders of the Company
Reports	Internal audit report is private and generally for the board and management.	Report is publicly available to the shareholders and other interested parties
Scope	Work relates to operations and risk management system.	Work relates to financial statements.
Appointment	Generally employees of the Company and head is appointed by Board or TCWG.	Appointed by shareholders or members of the Company
Regulation	No statutory regulation governing and supervising the work on internal auditor.	Audit is performed in accordance with local and internal national standards.

**Total Marks 10**

**Q.2 For each scenario:**

**0.5 mark for identifying the threat involved,**

**Up to 1.0 marks for explaining the threat and linking it to the scenario,**

**1 mark for each safeguard given (max 1.5 mark)**

**(1) Super Scoop limited (SSL)**

Providing recurring internal audit services to SSL may give rise to self- review threat. Further, as per code of ethics and code of corporate governance, an audit firm cannot provide both external and internal audit to a listed audit client

**Safeguard:** There is no safeguard in this case as SSL is a listed client and provision of internal audit services to listed clients is prohibited.

**(2) Hiring CFO:**

Recruiting senior management for an audit client creates a self-interest threat for the audit firm. As CFO will be able to affect the subject matter of an audit engagement, 'Independence of appearance' of the firm may be compromised. Audit firm should not make management decision for audit clients.

**Safeguard:**

Firm should ask audit client:

- To establish criteria by which CFO will be selected and
- Firm's involvement will be limited to reviewing a shortlist of candidates

**(3) Audit fee**

Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. This gives rise to self interest threat.

In this scenario, audit client has said the Audit Fee will be 1% of net profit. This may compromise firm's independence as audit team will be more inclined to increase the net profit of the Company.



## Summer Exam-2017

### Solutions – Audit, Assurance & Ethics

**Safeguard:**

No safeguard as under the code, firm is not permitted to enter into any fee arrangement for an audit or assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement.

**(4) Annual dinner**

Gifts or hospitality from the client should not be accepted unless the value is trivial and inconsequential as this may give rise to self-interest threat. The fact that management has asked audit team out for an expensive dinner during audit could be considered as a threat to independence, as it might influence the audit team's decisions.

**Safeguard:** Threat could be mitigated by declining the invitation.

**(5) Son of Yasir Khan**

The fact the son of Mr. Yasir Khan has been recently appointed CFO of the Company may threaten the objectivity and independence because of close family relationship. As CFO, Mr. Nauman will have direct influence over the financial statements and as engagement partner, Mr. Yasir is ultimate responsibility for the audit opinion, so there is a clear threat to objectivity and independence.

**Safeguard:** This threat to independence should be mitigated by the appointment of another audit partner to this client.

**Total Marks**      **15**

**Q.3 (a) Upto 1 marks each for clearly describing pre-conditions of audit**

**02**

1. The use by management of an acceptable financial reporting framework in the preparation of the financial statements and.
2. The agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.

**(b) Upto 1 mark for describing that auditor shall not agree to change in terms without reasonable justification.**

**08**

**Upto 1 mark for stating the course of action if assurance is restricted to lower level**

**Upto 2 marks for stating the course of action if changes in term is agreed by auditor**

**Upto 4 marks for describing if the change in term is not acceptable to auditor and course of action**

1. The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.
2. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.
3. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
4. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
  - (a) Withdraw from the audit engagement where possible under applicable law or regulation; and
  - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.





## Summer Exam-2017

### Solutions – Audit, Assurance & Ethics

**Q.4 (a) First Auditors**

The first auditor or auditors of a company shall be appointed by the directors within sixty days of the date of incorporation of the company; and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting. **(Maximum two marks)**

- if the directors fail to exercise their powers under this sub-section, the company in general meeting may appoint the first auditor or auditors. **(one mark)**
- Where the first auditors are not appointed within one hundred and twenty days of the date of incorporation of the company, commission may appoint the first auditors **(one mark)**

**(b) Subsequent appointment**

Every company shall at each annual general meeting appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting. **(max two mark, only one mark if period of holding office of auditor is not mentioned)**

Where at an annual general meeting no auditors are appointed, or where auditors appointed are unwilling to act as auditors of the company, Commission may appoint a person to fill the vacancy. **(upto2 marks)**

**(c) Casual Vacancy**

The directors may fill any casual vacancy in the office of an auditor; but, while any such vacancy continues, the surviving or continuing auditor or auditors, if any, may act. **(one mark)**

Where a casual vacancy in the office of an auditor is not filled within thirty days after the occurrence of the vacancy, the Commission may appoint a person to fill the vacancy. **(2 marks)**

**Total Marks 11**

**Q.5. For each issue:**

- **1 mark for identifying the issue and relating it to requirement of IFRS/IAS**
- **2 mark for explaining the issue**
- **1 for calculating the materiality**
- **2 marks for determining the impact on audit report**

**Production Facilities:**

CCL has expense out the expense incurred on improving the production facilities. As per IAS 16, expenditure incurred for enhancement or improving the capacity should be capitalized in cost of that asset.

CCL has increased its production capacity by 10% by spending Rs. 150 million. As explained above Rs. 150 million should added in the cost of plant. Management's claim that no new pant was purchased so that's why the above amount is expensed out is not valid under IAS 16.

**Materiality:**

The above expenditure is 3% of total assets and 37.5% of net profit. So the above misstatement is both material and pervasive to financial statements.

**Impact on Audit Report:**

If management does not agree to correct the misstatement, net profit and assets will be understated by Rs. 150 million (ignoring the impact of depreciation). Our opinion will be adverse with respect to this misstatement.

**Capitalization of Training Cost:**

CCL has capitalized the training cost of employee as intangible asset. As per IAS 38, entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset.



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Management of CCL believes that training cost will improve production efficiencies in future, however, CCL does not have control over the production staff as they can leave any time. CCL should expense this training cost instead of capitalizing it as intangible asset.

**Materiality:**

Training cost is 30% of net profit and 2% of total assets. So the above misstatement is both material and pervasive to financial statements.

**Impact on Audit Report:**

If management does not agree to correct the misstatement, net profit and assets will be overstated by Rs. 120 million (ignoring the impact of amortization if charged). Our opinion will be adverse with respect to this misstatement.

**Total Marks      12**

**Q.6. 2 Marks for structure of email and professionalism**

**Upto 1 marks for explaining that it is limitation on audit evidence**

**Upto 2 mark for giving a reason of management intentions of not sending the confirmation**

**6 marks for explaining alternative course of action (1.5 marks per course of action)**

**Upto 1 marks for explaining the impact on audit report.**

To: Audit Manager

Date: XX/XX/2017

Subject: RE: External Confirmation-TL

Dear Audit Manager,

I understand that management of TL is not willing to send confirmation to AL. Please note that, a refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain.

**Possible Reason**

A common reason may be the existence of a legal dispute or ongoing negotiation with the management of AL. Management may be of the view that AL may not respond to this confirmation request and audit may be delayed due to non-provision of reply from AL

**Course of Action:**

Following is the list of actions you may consider:

1. To inquire as to the reasons for the not sending balance confirmation;
2. To seek audit evidence as to the validity and reasonableness of the reasons because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error;
3. To revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures if management's request to not confirm is unreasonable; and
4. To perform alternative procedures to verify the balance due from AL, including checking subsequent receipt of amount due.

**Impact on audit report if matter remain unresolved**

As you have already mentioned that the amount is material to Financial Statement, audit opinion will be qualified on the basis that, the auditor could not obtain sufficient appropriate audit evidence on which to base the opinion.

I hoped this would help you. Would you need any further information, please feel free to contact me.

Yours sincerely,

**Senior Manager, Chartered Accountants Firm**

**Total Marks      12**



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**Q.7. Up to 2 marks for explaining significance of aggregate of individual immaterial misstatement and linking it to possible undetected misstatements.**

**Up to 2 marks for explaining performance materiality at financial statements and its purpose.**

**Up to 3 marks for explaining performance materiality at class of transactions, account balance or disclosure and its purpose.**

- (a) Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements **02**
- (b) (i) Performance materiality at financial statement level (which, as defined, is one or more amounts) is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. **02**
- (ii) Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. **03**
- (c) **0.5 marks for stating the assertion**  
**0.5 marks for explaining the assertion**

**Occurrence:** disclosed events, transactions and other matters have occurred.

**Rights and obligations:** disclosed events, transactions and other matters pertain to the entity.

**Completeness:** all disclosures that should have been included in the financial statements have been included.

**Classification and understandability:** financial information is appropriately presented and described, and disclosures are clearly expressed.

**Accuracy and valuation:** financial and other information are disclosed fairly and at appropriate amounts.

**Total Marks 12**

**Q.8. (a) 2 marks for defining subsequent event**

**2 marks for differentiating between adjusting and non-adjusting event.**

- (i) Subsequent events: Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.
- (ii) Adjusting events after the reporting period are those that provide evidence of conditions that existed at the end of the reporting period while non-adjusting events after the reporting period are those that are indicative of conditions that arose after the reporting period
- (b) **0.5 For identifying the issue**  
**1.5 For explaining the issue**  
**2 marks for discussing the impact on audit report**

(i) The damage to inventory by fire is a non-adjusting event. Because the fire broke after the year and it is not evidence of conditions existed at balance sheet i.e. at balance sheet date there was no evidence of damage.

Nonetheless, a disclosure would be required in financial statements for the understanding of users of the financial statements that inventory is not available for sale in ordinary course. The disclosure should clearly describe the situation and disclose the amount of inventory destroyed.



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**Impact on audit report**

As explained in scenario that the amount is material to financial statements, a non-disclosure of above may result in qualification of audit opinion with respect to non-disclosure of a material subsequent event.

- (ii) The bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable.

In this case, customer went in to liquidation just 10 days after the reporting date, which means that evidence of conditions existed at 31 March 2017 that the customer will not going to repay the debts. The financial statements should be adjusted (provision of doubtful trade receivables should be recorded) to reflect this event.

**Impact on audit report**

As explained in scenario that the amount is material to financial statements and the event is adjusting event, audit opinion will be qualified with respect to material misstatement in trade receivables.

**Total Marks      12**

**Q.9. (a) Two marks for defining anomaly.**

Anomaly – A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

**(b) Up to two marks for clearly stating the implication (One mark per implication).**

When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population.

However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.

**(c) One mark for stating that projection is not required. One mark for explaining.**

For tests of controls, no explicit projection of deviations is necessary.

Because for test of controls, the sample deviation rate is also the projected deviation rate for the population as a whole.

**Total Marks      06**

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