# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate Sector

## Business Laws (02.05.2016)

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

Additional time – 15 min for Paper Reading

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- Start each question from fresh page.

## Attempt all Questions

**Q.1.** In the context of legal systems in Pakistan, what do you understand by Alternate Dispute Resolution (ADR)? Also mention any three advantages and disadvantages of ADR. **08**

**Q.2. a)** Baber while renting out his house to Rahim, included a condition in the rent agreement that Rahim would pay water charges. Rahim lost his job and could not pay rent as well as water charges. A notice was served by the KW & SB and Baber paid three months water charges to avoid disconnection. Can Baber legally recover this payment from Rahim? Also discuss what kind of arrangement is there and what are essential requirements to make this legally enforceable? **06**

**b)** List down any four key differences between a contract of indemnity and a Contract of Guarantee. **06**

**Q.3. a)** Mention against each statements whether Correct or Wrong: **06**

(i) A surety can be discharged by giving notice to the creditor in case of continuing guarantee as to past transactions.

(ii) Where no real loss arises nominal damages are awarded.

(iii) The president of Pakistan may hold the office for more than three consecutive terms.

(iv) The seats for national assembly are determined on the basis of revenue of provinces.

(v) Rescission means the substitution of a new contract for an old one.

(vi) A contract is not discharged simply on grounds of partial impossibility of some of the objects of the contract

(vii) An agency is terminated by the insolvency of the Principal.

(viii) Tender of goods or services is said to be conditional when it is made in accordance with the terms of the contract.

**b)** List down any four cases where suit for specific performance of a Contract is not maintainable. **04**

**Q.4. a)** Engineers A, B and C are running a construction business on partnership basis, sharing equal profit and loss. Engineer **B** purchased a construction equipment for Rs.500,000/- with testing cost of Rs.150,000/-. There was a dispute with supplier and the firm refused to pay the testing cost. The supplier sued **B** for the unpaid amount of Rs.150,000/-. Can supplier sue **B** alone, what remedies are available to **B** if he has to pay Rs.150,000/-. Also discuss the relevant law in this regard. **07**

**Contd. on back**

| | | | |
|---|---|---|---|
| | **b)** | List down any six mandatory duties of a partner that cannot be changed by an agreement amongst the partners. | **03** |
| | **c)** | Describe the right of an outgoing partner to share in the subsequent profits under Partnership Act 1932. | **05** |
| **Q.5.** | **a)** | Ruby sold 50 lawn suits to Bela for Rs.100,000/- Bela took delivering of 20 suits and requested Ruby to hold the remaining 30 suits for a month. Owing to heavy rain, without any negligence on the part of Ruby, some lawn suits were damaged. Bela refused to take the delivery and pay the price.<br><br>Discuss the Legal position along with reasons as to who will bear the loss under Sale of Goods Act, 1930. | **04** |
| | **b)** | Briefly describe the rights of an unpaid seller of goods as specified in the Sale of Goods Act, 1930. | **06** |
| **Q.6.** | **a)** | Raja and Rehan two senior cricketers want to establish a Cricket Academy to explore and train new talent. One of their friends advised them to register a company for this purpose. Advise Raja & Rehan about restrictions, privileges and obligations if they register a company as an association not for profit. | **04** |
| | **b)** | List down any six purpose for which an association not for profit may be formed. | **03** |
| | **c)** | The business of Zee Foods Limited was acquired by a new group and new group want to change the name of the company. You have been engaged to advise Board of Directors for legal requirements in this regard. Make a brief for the Board's guidance. | **08** |
| **Q.7.** | **a)** | Describe members' rights regarding minutes of proceeding of the General Meeting. | **04** |
| | **b)** | List down any six powers of the Board Directors shall exercise by passing a resolution in Board Meeting. | **06** |
| **Q.8.** | | Describe the Legal Provisions relating to; | |
| | | **(i)** First Chief Executive | **04** |
| | | **(ii)** Removal of Chief Executive | **04** |
| | | **(iii)** Filing of Special Resolutions | **03** |
| **Q.9.** | | Write short notes on the following:- | |
| | | **(i)** Private Company | **04** |
| | | **(ii)** Public Unlisted Company | **03** |
| | | **(iii)** Holding Company | **02** |

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate|AGP|PG|PMAD|PUBLIC Sectors

## Business Economics (03.05.2016)

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

Additional time – 15 min for Paper Reading

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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# Attempt all Questions

**Q.1. a)** What is Opportunity Cost? Give two examples. **03**

**b)** How does the concept of Opportunity Cost apply to households, firms and the Government? **07**

**Q.2. a)** Define Cross Elasticity of Demand. **02**

**b)** Anwar Khan sells computer games. During December 2015 Khan sold 10,000 computer games at a price of Rs.600 per game. In January 2016, one of Khan's competitors reduced the price of similar game from Rs.650/- to Rs.550/- and Khan could sell only 8000 games. **08**

Find Cross Elasticity of Demand between Khan's and his competitor's games.

**Q.3. a)** What is Indifference Curve? Why is an Indifference Curve convex to the origin? **06**

**b)** Mr. Javed has a budget of Rs. 100. He wants to purchase two goods **X** and **Y**. If price of **X** is Rs. 20 per unit and price of **Y** is Rs. 10 per unit; **draw a Budget Line**. **04**

What would happen to this budget line if income of Mr. Javed increases from Rs. 100 to Rs. 200?

**Q.4. a)** What is Price Discrimination? Give two examples. **04**

**b)** Allied Private Limited is a perfect competitor firm. It is earning supernormal profit in the short run period. Make a diagram that expresses the supernormal profit of Allied Private Limited. **06**

**Q.5. a)** Define the term Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS). **04**

**b)** What is Multiplier Effect? Find the value of multiplier in ABC country. The given information is : **06**

| | | |
|---|---|---|
| MPS | = | 0.3 |
| MPT | = | 0.2 |
| MPM | = | 0.1 |

**Q.6. a)** What is Direct Tax? From Government's perspective, briefly explain three advantages of Direct Tax. **05**

**b)** What is Fiscal Policy? Enlist the main objectives of Fiscal Policy. **05**

**Contd. on back**

**Q.7.** The following data relates to the economy of a country SUPERLAND over a one year period.

| | **Rs. (million)** |
|---|---:|
| Consumers' expenditure | 20,500 |
| General government final consumption | 8,000 |
| Gross domestic fixed capital formation | 4,920 |
| Exports of goods and services | 7,450 |
| Imports of goods and services | 6,340 |
| Taxes on expenditure | 3,260 |
| Subsidies | 500 |
| Capital consumption | 1,830 |
| Net income from abroad | 1,500 |

**Calculate the following from the above data:**

- **(i)** Gross Domestic Product (GDP) **03**
- **(ii)** Gross National Product (GNP) **02**
- **(iii)** Net National Product (NNP) **02**
- **(iv)** GDP at Factor Cost **03**

**Q.8.** **a)** Briefly explain the following instruments of Monetary Policy:

- **(i)** Open Market Operation **02**
- **(ii)** Reserve Ratio **02**

**b)** Government of ALand wants to correct the current account deficit. Give three suggestions in this regard. **06**

**Q.9.** **a)** Explain the following types of shares:

- **(i)** Common Stock **03**
- **(ii)** Preference Shares **03**

**b)** What is the role of Reserve Ratio in credit creation of Commercial Banks? **04**

**Q.10.** Define the following Economic Terms:

- **(i)** Foreign Exchange Rate **02**
- **(ii)** Demand for Money **02**
- **(iii)** Balance of Trade **02**
- **(iv)** Consumer Credit **02**
- **(v)** Capital Market **02**

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate|AGP|PG|PMAD|PUBLIC Sectors

## Cost Accounting (04.05.2016)

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

Additional time – 15 min for Paper Reading

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

## Attempt all Questions

**Q.1.** A company manufactures a single product. The selling price is Rs. 100 per unit. Currently the capacity utilization is 60% with the sales turnover of Rs. 600,000. The company proposes to reduce the selling price by 20% but desires to maintain the same profit position by increasing the output. Assuming that the increased output could be made and sold.

Other relevant data is as under:

- Variable Cost per unit Rs. 20
- Semi-Variable Cost (including a variable element of Rs. 5 per unit) Rs. 60,000.
- Fixed Costs of Rs. 200,000 will remain constant upto 80% level. Beyond this an additional amount of Rs. 40,000 will be needed.

**Required:**

Determine the number of units the company should produce and sell to maintain the existing profit. What will be the percentage of capacity utilization at that level of production? **15**

**Q.2.** Ibrahim Corporation uses a process costing system. Cost data of its finishing department for the month of September 20XX is as under:

| | Rs. |
|---|---|
| Cost from preceding Department | 20,000 |
| **Cost added:** | |
| Materials | 18,000 |
| Labour | 9,000 |
| Factory Overhead | 9,000 |

Quantity schedule of the department contained the following information:

| | |
|---|---|
| Units received from preceding department | 5,000 |
| Units transferred to finished goods | 4,000 |
| Units still in process (50% complete) | 1,000 |

**Required:**

A Cost of Production Report. **20**

**Q.3.** Following figures are presented to you by Alfa Manufacturing Company:

| Items | Budgeted Figures for Operations during 20XX | | Actual Figures for Operations during January 20XX | |
|---|---|---|---|---|
| | Dept. A | Dept. B | Dept. A | Dept. B |
| Direct Materials (Rs.) | 600,000 | 2,400,000 | 450,000 | 250,000 |
| Direct Labour (Rs.) | 1,500,000 | 1,200,000 | 145,000 | 105,000 |
| Factory overhead (Rs.) | 1,200,000 | 1,800,000 | - | - |
| Direct Labour hours | 150,000 | 100,000 | 14,000 | 9,500 |
| Machine hours | 300,000 | 360,000 | 26,000 | 28,000 |

**Contd. on back**

**Required:**

**(a)** Calculate predetermined Factory Overhead Absorption rates for the two departments using five different bases. **05**

**(b)** Calculate total product cost of output during January 20XX under bases of Direct Labour Cost, Direct Labour Hours and Machine Hour. **10**

**Q.4.** XY Ltd. manufacturer of product **P** uses a Standard Cost System. Standard product and cost specifications for 1,000 kgs. of products are as follows:

| Ingredients | Quantity (kgs.) | Price per Kg (Rs.) | Cost (Rs.) | |
|---|---|---|---|---|
| A | 800 | 2.50 | 2,000 | |
| B | 200 | 4.00 | 800 | |
| C | 200 | 1.00 | 200 | |
| Input | 1,200 | - | 3,000 | = Rs. 2.50 per kg |
| Output | 1,000 | - | 3,000 | = Rs. 3 per kg |

Material records indicate:

| | Consumption in January |
|---|---|
| A | 157,000 kgs @ Rs. 2.40 |
| B | 38,000 kgs @ Rs. 4.20 |
| C | 36,000 kgs @ Rs. 1.10 |

Actual Finished production for the month of January is 200,000 kgs.

**Required:**

Calculate the following Variances:

**(a)** Material Price Variance **04**

**(b)** Material Mix Variance **04**

**(c)** Material Yield Variance **04**

**Q.5.** Best Company estimated manufacturing overheads for the budget year 2016, at Rs.1,600,000, while direct labor hours estimated to be worked during the year were 30,770. The direct labor rate per hour was Rs.40. During the month of January, 2016, four jobs were completed each involving 500 direct labor hours. The actual manufacturing overheads recorded was Rs.104,500.

**Required:**

**(a)** Compute the predetermined manufacturing overhead rate for application of manufacturing overhead to finished jobs during the year 2016. **04**

**(b)** Compute the amount of manufacturing overhead to be applied to the completed jobs. **04**

**(c)** Compute the over or under applied manufacturing overhead for January, 2016 and advise its disposal. **04**

**Q.6.** Lucky Enterprise follows Absorption Costing. It reported opening balance of work-in-process at Rs.540,000 for the year 2015, while the closing balance at Rs.360,000. The direct labor hours were recorded at 48,000 and the wage rate at Rs.60 per hour. During the period purchases of direct materials amounted to Rs.3,820,000. The opening inventory of material was stated at Rs.780,000 while closing inventory was stated at Rs.540,000. The indirect materials were reported at Rs.120,000, while indirect labor cost was stated at Rs.80,000. Manufacturing overheads were reported at Rs.1,800,000.

**Contd……**

**Required:**

Prepare 'Cost of Goods Manufactured Statement' for the year 2015. **08**

**Q.7.** Hi-Tech Limited has following cost structure for its core product marketed under the brand name 'ROX':

| | |
|---|---|
| Direct Material 6 Oz. @ Rs.25\Oz. | |
| Direct Labor 1.5 Hours @ Rs.60\Hour | |
| Manufacturing Overheads (Note 1) | Rs. 1,200,000 |
| Selling Costs (Note 2) | Rs. 650,000 |
| Administration expenses (Note 3) | Rs. 480,000 |
| During the year 2015, Hi-Tech produced and sold 60,000 units of ROX | |

**Notes:**

- The variable portion of manufacturing overhead is calculated at 15% of direct labor costs.
- Selling costs reflect decline of Rs.60,000, over the year 2014 when 70,000 units were produced.
- Administration expenses are fixed costs.
- Sale price of one unit of ROX is Rs.650.

**Required:**

Prepare Income Statement using Variable Costing. **08**

**Q.8.** 100 units of material 'M' costing Rs. 8 per unit were in stores on 1st January, 20XX. Following are the receipts and issues during January.

| | | |
|---|---|---|
| Jan. 01 | Received | 100 units @ 8.50 |
| Jan. 05 | Issued | 100 units |
| Jan. 08 | Received | 200 units @ Rs. 8.85 |
| Jan. 15 | Received | 100 units @ Rs. 9.25 |
| Jan. 25 | Issued | 220 units |
| Jan. 31 | Issued | 80 units |

**Required:**

Prepare Materials Ledger Card, based on the above information using each of the following methods: **10**

**(i)** FIFO

**(ii)** LIFO

**(iii)** Average Cost

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate Sector

## Financial Accounting (05.05.2016)

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

**Additional time – 15 min for Paper Reading**

**[Instructions]**

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# Attempt all Questions

**Q.1.** National Investment Limited is finalizing its accounts for the year ended March 31, 2015. How will the following income be accounted in books of National Investment Limited? Support your answer keeping in view the IAS - 18.

**(a)** Alpha Limited has declared Interim Dividend on March 25, 2015 which is not received till 31-03-2015 but received on April 25, 2015. The Book Closure date was April 02, 2015. **05**

**(b)** Zaid Limited has declared dividend on May 10, 2015 for the year ended March 31, 2015 which is approved by shareholder in AGM held on June 30, 2015. **05**

**Q.2.** Following is the Trial Balance of Basic Poultry (Private) Limited as at June 30, 2015.

| PARTICULARS | DEBIT | CREDIT |
|---|---|---|
| | Rs. | Rs. |
| Share Capital | | 10,000,000 |
| Sales | | 5,000,000 |
| Allowance for Doubtful Debts | | 30,000 |
| Accounts Payable | | 400,000 |
| Notes Payable | | 300,000 |
| General Reserves | | 200,000 |
| Retained Earnings | | 3,000,000 |
| 8% Debentures Payable | | 1,000,000 |
| Opening stock | 800,000 | |
| Purchase | 2,000,000 | |
| Trade Debtors | 1,200,000 | |
| Financial Charges on Debentures | 40,000 | |
| Prepaid Insurance | 300,000 | |
| Bad Debts Expenses | 50,000 | |
| Preliminary Expenses | 100,000 | |
| Dividend Paid | 200,000 | |
| General Expenses | 100,000 | |
| Cash and Bank Balance | 540,000 | |
| Salaries | 1,200,000 | |
| Land | 10,400,000 | |
| Plant and Machinery | 3,000,000 | |
| | **19,930,000** | **19,930,000** |

**Contd. on back**

**Other Information:**

- Closing Stock is Rs. 500,000.
- Provision on Uncollectible is maintained at 5% of the Closing Balance of Accounts Receivables.
- Unexpired insurance as at June 30, 2015 is Rs. 100,000.
- Salaries Paid in Advance Rs. 50,000.
- Salaries outstanding as on June 30, 2015 were Rs. 150,000.
- Six months Financial Charges on Debentures is outstanding.
- Preliminary Expenses has to be write off over 10 years.
- Depreciation is to be provided @ 10% on Plant and Machinery on Reducing Balance Method.
- Dividend declared and paid Rs. 200,000.

## Required:

Prepare the following Financial Statements in accordance with International Financial Reporting Standard / IAS - 1 for June 30, 2015. **20**

**(i)** Statement of Profit or Loss.

**(ii)** Statement of Financial Position.

**Q.3.** The Comparative Statement of Financial Position of Friends Commodities (Private) Limited shows the following information:

| | 2015 | 2014 |
|---|---:|---:|
| **EQUITY AND LIABILITIES** | | |
| Capital Account | 910,000 | 710,000 |
| Long Term Note Payable | 150,000 | - |
| Accounts Payable | 300,000 | 120,000 |
| Bonds Payable | 500,000 | 800,000 |
| Retained Earnings | 670,000 | 620,000 |
| Accrued Liabilities | 40,000 | 50,000 |
| **TOTAL EQUITY AND LIABILITIES** | **2,570,000** | **2,300,000** |
| **ASSETS** | | |
| Land | 560,000 | 300,000 |
| Fixed Assets | 2,000,000 | 1,900,000 |
| Accumulated Depreciation | (800,000) | (770,000) |
| Long Term Investments | 50,000 | 25,000 |
| Trade Receivables (Net) | 410,000 | 460,000 |
| Inventory | 300,000 | 320,000 |
| Prepaid Expenses | 20,000 | 15,000 |
| Cash and Bank Balances | 30,000 | 50,000 |
| **TOTAL ASSETS** | **2,570,000** | **2,300,000** |

**Contd…..**

**Additional data related to June 30, 2015 is as follows:-**

- Net Profit for the year was Rs. 110,000.
- Depreciation on Fixed Assets was Rs. 60,000.
- Sold Fixed Assets with a cost of Rs. 50,000 and accumulated depreciation of Rs. 30,000 for Rs. 17,000.
- Declare and Paid Cash Dividends Rs. 60,000.
- Issued Long Term Note Payable for Rs. 150,000 for Purchase of Building.

## Required:

Prepare Statement of Cash Flows for the year ended June 30, 2015 using indirect method in accordance with IAS-7. **10**

**Q.4.** The Ray Pharma is importer of particular item. Accountant of the Company has prepared the Profit and Loss Account following average method for valuation of closing inventory.

Following are details of transaction during the year:

| **Purchases during the period** | | |
|---|---|---|
| **Date** | **Units** | **Amount (Rs.)** |
| 05-Jul-14 | 5,000 | 3,250,000 |
| 10-Sep-14 | 14,000 | 8,750,000 |
| 26-Dec-14 | 9,500 | 6,650,000 |
| 24-Mar-15 | 18,600 | 13,857,000 |
| 05-Apr-15 | 15,600 | 11,310,000 |
| 31-May-15 | 10,100 | 6,969,000 |

| | |
|---|---|
| Opening Stock | 1,000 |
| Sales | 57,000 |
| Closing Stock | 16,800 |

The Profit and Loss Account prepared by the Accountant on average method of valuation of closing inventory is as follows:

| | Rs. | |
|---|---|---|
| **Sales** | | 41,325,000 |
| Cost of Sales | | |
| Opening Stock | 560,000 | |
| Purchase | 50,786,000 | |
| | 51,346,000 | |
| Less Closing Stock | 11,688,520 | 39,657,480 |
| Gross Profit | | 1,667,520 |
| Operating and Selling Expenses | | 1,525,900 |
| **Net Profit for the Period** | | **141,620** |

## Required:

Prepare a revised Profit and Loss Account based on FIFO Method for valuation of Closing Inventory at Cost or Net Realizable Value which ever is lower. The Selling Expenses are 2% of Sales. **12**

**Contd. on back**

**Q.5.** Ahmed and Umer are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on June 30, 2015 is as under

| | Rs. |
|---|---|
| **EQUITY AND LIABILITIES** | |
| Sundry Creditors | 28,500 |
| Accrued Expenses | 4,000 |
| Reserves | 10,000 |
| Capital Account - Ahmed | 29,000 |
| Capital Account - Umer | 15,000 |
| | **86,500** |
| **ASSETS** | |
| Stock in Trade | 15,000 |
| Sundry Debtors | 9,400 |
| Provision for Bad Debts | (400) |
| Buildings | 35,000 |
| Machinery | 19,000 |
| Furniture and Fixture | 5,000 |
| Prepaid Expenses | 1,500 |
| Cash and Bank Balance | 2,000 |
| | **86,500** |

It has been decided on July 01, 2015 to admit Yousuf as new partner by introducing a capital of Rs. 21,000. The Capital of partners to be adjusted in the new profit sharing ratio which is 5:3:2 by taking Yousuf's Capital as base. Yousuf is unable to bring any premium for goodwill. Therefore, it is decided to raise Goodwill Account, amount being calculated on the basis of Yousuf's share in the Profits and Capital Contribution by him. Following revaluations are agreed to be made:

- Furniture to be depreciated by 10%.
- Stock to be depreciated by 10%.
- Provision for bad debts is to be raised by Rs. 100.
- Building is revalued at Rs. 41,350.

**Required:**

**(a)** Revaluation Account **05**

**(b)** Partners Capital Account **08**

**(c)** Balance Sheet of the firm as on July 01, 2015 alongwith necessary computation. **07**

**Q.6.** Green Line Transport Company purchased 10 Buses from Red Line Company on January 01, 2013 at a list price of Rs. 2 Million each with a Salvage Value of Rs. 240,000 each. After negotiation Red Line Company agreed to give 10% trade discount to Green Line Transport Company.

The Green Line Transport Company incurred and paid the following:

- Custom Duty paid on invoice price for all buses, Rs. 170,000.
- Repainting on buses @ Rs. 10,000 each.

**Contd. on back**

- Freight Charges were Rs. 13,000 each.
- The expected useful life of bus is ten (10) years.
- The Company uses 15% written down value method to depreciate all buses.
- On January 01, 2016 five (05) out of ten (10) buses were sold for Rs. 6,650,000.

## Required:

**i)** Journalize all the transaction alongwith Computation of the Cost of all buses. **05**

**ii)** Calculate the annual charges of depreciation in the Income Statement for December 31, 2013 to 15. **03**

**iii)** Calculate loss or gain on disposal of the buses and pass necessary journal entry. **04**

**Q.7.** Marahaba (Private) Limited with its Head Office at Karachi has a branch at Lahore. Goods are invoiced to the branch at cost plus 20%. The following information is given in respect of the branch for the year ended March 31, 2016.

| | (Rs.) |
|---|---|
| Goods sent to Branch (Invoice Price) | 350,000 |
| Stock at Branch on April 01, 2015 (Invoice Price) | 17,500 |
| Cash Sales during the year | 131,250 |
| Credit Sales during the year | 204,167 |
| Branch Expenses (Paid in Cash) | 39,010 |
| Trade Debtors Branch (April 01, 2015) | 21,875 |
| Trade Debtors Branch (March 31, 2016) | 26,615 |
| Discount Allowed | 729 |
| Bad Debts | 1,094 |
| Collection from Debtors | 196,875 |
| Branch Debtors Cheques Dishonored | 3,646 |
| Stock at Branch on March 31, 2016 (Invoice Price) | 35,000 |
| Return of Goods by Customers to the Branch | 4,375 |

## Required:

Prepare under the Stock and Debtors System, the following ledger accounts in the books of the Head Office.

**(a)** Lahore Branch Stock Account **04**

**(b)** Lahore Branch Debtors Account **03**

**(c)** Lahore Branch Adjustment Account **05**

**(d)** Lahore Branch Profit and Loss Account **04**

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate|AGP|PG|PMAD|PUBLIC Sectors

## Bus. Com. & Report Writing (06.05.2016)

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

Additional time – 15 min for Paper Reading

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

## Attempt all Questions

| | | |
|---|---|---|
| **Q.1.** | **(a)** List the characteristics of Effective Communication? | **06** |
| | **(b)** How 'Paralanguage' effects our communication? | **03** |
| **Q.2.** | **(a)** Identify the Ten components included in "Universals of Communication"? | **05** |
| | **(b)** Define and compare Formal and Informal Communication in an organization? | **10** |
| **Q.3.** | The objective of a well planned negative message is to convey the negative message clearly whilst retaining as much goodwill as possible in a constructive fashion. How will you ensure it in your message? | **09** |
| **Q.4.** | How many different types of listeners do we find in an organizational setting? What are their qualities? | **06** |
| **Q.5.** | Assuming yourself to be an auditor of a Chartered Accountant firm, write an enquiry letter to a bank for verification of bank balance as reported in your client's balance sheet. Assume necessary details? | **10** |
| **Q.6.** | Prepare a Notice and an Agenda for Lucky Textiles Pvt. Ltd. You must assume necessary details. The Agenda must include items related to HR, Finance, Marketing and Quality Control'? | **10** |
| **Q.7.** | Your organization plans to launch a courier service in Pakistan. You have been assigned to conduct a SWOT analysis of your Company and submit a report to the CEO. You must assume necessary details. Note that a SWOT analysis describes a business's Strength (S), Weaknesses (W), Opportunities (O) and Threats (T). | **15** |
| **Q.8.** | A multinational company advertised for Management Trainees in Accounts and Finance Department. Prepare a 'CV' for the same. Assume all necessary details. | **10** |
| **Q.9.** | What benefits do you draw while using 'email' for communication in an organization? | **07** |
| **Q.10.** | Why is video conference becoming so popular in commercial organization? | **09** |

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate Sector

## Taxation (05.05.2016)

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

**Additional time – 15 min for Paper Reading**

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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- **Start each question from fresh page.**

## Attempt all Questions

**Q.1.** Define the following in view of the Income Tax Ordinance, 2001:

- **(i)** Filer **02**
- **(ii)** Imputable Income **02**
- **(iii)** Small Company **02**

**Q.2.** Explain the power of parliament to impose tax on the income of certain corporations. **09**

**Q.3.** Describe the unexplained income or assets in the light of Section 111 of the Income Tax Ordinance, 2001 & its consequences. Also explain income and assets which have protection from charge of Section 111. **10**

**Q.4.** Mr. Akram provided the following information for the assessment of his income for the tax year ended on 30th June, 2015. Determine his total income and the tax payable by him. **15**

- Taxpayer was resident during the tax year.
- Received rent of Rs. 50,000 per month for full year.
- Property tax paid Rs. 5,000 outstanding Rs. 6,000.
- Interest of Rs. 10,000 paid on money borrowed for construction of the house.
- Paid during this property tax of Rs. 5,000 for the last year, it was not allowed as deduction in that year.
- Received interest income of Rs. 5,000 from saving account in bank.
- Received Rs. 200,000 on encashment of Defence Saving Certificates. Zakat of Rs. 5,000 was deducted thereon.

**Q.5.** **(a)** Explain the System of Adjustment of Excise Duty. **06**

**(b)** Explain the drawback of Duty and its prohibition. **06**

**Q.6.** **(a)** Explain the provision of Minimum Tax. **08**

**(b)** Explain the benefits and conditions of Section 65(B) of the Income Tax Ordinance, 2001. **08**

**Q.7.** Explain provisional assessments in the light of section 122(C) and section 123 of the Income Tax Ordinance, 2001. **10**

**Q.8.** Discuss the procedure of assessment u/s 11 of the Sales Tax Act, 1990. **10**

**Contd. on back**

**Q.9.** A company is engaged in business of concrete electric poles. The company purchased the following material during a tax period:

| | Rs. |
|---|---|
| Cement from a registered manufacturer (20,000 bags @ Rs.300) | 6,000,000 |
| Sand from a non-registered supplier | 300,000 |
| Concrete-crushed from a registered person (20,000 cubic ft.) | 700,000 |
| Steel from Pak Steels (50 tons) | 1,000,000 |
| Total | 8,000,000 |

The company incurred manufacturing and other costs worth Rs. 2,000,000. During the month, it supplied the goods worth Rs. 12,000,000. It is further provided that during the tax period the Company used 1,000 bags of cement, 2,000 cubic ft. concrete and ten (10) tons of steel for repair and maintenance of the office building.

**Required:**

Compute the Sales Tax Liability of the company, assuming that the whole supply was made to registered person. **12**

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# Pakistan Institute of Public Finance Accountants
## Summer Exam-2016
Corporate Sector
## Financial Reporting (02.05.2016)

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

Additional time – 15 min for Paper Reading

[Instructions]
- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**
- **Book Allowed – International Financial Reporting Standards**

## Attempt all Questions

**Q.1.** The following are the Statements of Comprehensive Income of a Parent Co. and its Subsidiary Co. for the year ended December 31, 2015:

| Profit and Loss Account | Parent Co. | Subsidiary Co. |
|---|---|---|
| | Rs. (000) | Rs. (000) |
| Revenue | 50,250 | 30,510 |
| Cost of sales | (22,225) | (12,475) |
| Gross profit | 28,025 | 18,035 |
| Operating expenses | (12,635) | (12,610) |
| Operating profit | 15,390 | 5,425 |
| Finance cost | (7,450) | (2,500) |
| Investment income | 2,500 | -- |
| Profit before tax | 10,440 | 2,925 |
| Tax expense | (3,375) | (1,236) |
| Profit after tax | 7,065 | 1,689 |
| **Other comprehensive income** | | |
| Items that may not be reclassified to P&L | | |
| Revaluation surplus | 10,250 | 2,450 |
| Other comprehensive income | 10,250 | 2,450 |
| Total comprehensive income | 17,315 | 4,139 |

**Notes to above Statements:**

The Parent Co. (**P Co.**) acquired 85% shares of Subsidiary Co. (**S Co.**) many years back at the date of incorporation of the said company. During the year the following intercompany adjustments are necessary before preparing consolidated financial statements.

- During the year **P Co.** sold goods costing Rs. 4 million at markup of 20%, 1/4th of said goods remained unsold by the year end.
- An item of property, plant and equipment sold by **S Co.** to **P Co.** on 30th September 2015 for Rs. 2 million having carrying value of Rs. 1.5 million. The gain on disposal credited to cost of sales. The remaining useful life of property, plant and equipment on disposal date was 4 years.
- The **S Co.** declared final dividend of Rs. 2 million for the year ended December 31, 2014 on 15th March 2015. The investment income of **P Co.** includes dividend from **S Co.**
- The **P Co.** has provided 20% of loan to **S Co.** the loan remains outstanding for the whole year.
- An intangible asset not recognized by **S Co.** at the acquisition date qualifies for recognition under IFRS 3 and being amortized in group financial statements. The amortization expense per year is Rs. 1 million.

**Contd. on back**

- The group has the policy of measuring non-controlling interest at fair value at the date of acquisition. The goodwill has impaired by Rs. 1.5 million during the year.

**Required:**

Prepare Consolidated Statement of Comprehensive Income of **P Co.** group for the year ended December 31, 2015. **22**

**Q.2.** During finalization of Financial Statements of a large scale company, you came across the following accounting issues: -

**(a)** The entity has been sued by one of its customers for supplying faulty goods which resulted in damage to the property of the customer. At the reporting date the legal advisor was of the opinion that there is a remote chance the claim will be accepted by the court, therefore no provision was recognized at the reporting date. However, after the reporting date but before the authorization of financial statements the court awarded Rs. 250,000 claim to the customer. The company preferred to file appeal against the decision and appeal is pending before the appellate authorities. The legal advisor is now of the opinion that the penalty may be upheld up to Rs. 100,000.

**Required:**

Determine whether provision is to be recognized and if so calculate amount of provision and pass appropriate double entry as well. **04**

**(b)** The company has declared final dividend after the year end of Re. 1 per share. The share transfer books will remain close on April 10 to April 15, 2016 for determination of eligible shareholders. The authorization date of financial statements is March 31, 2016.

**Required:**

Discuss the appropriate treatment of final dividend in the Financial Statement for the year ended December 31, 2015. **03**

**(c)** The company has recently started the work on development of a new product and got registered with the regulatory authorities. A huge advertisement campaign with the cost of Rs. 5 million launched to introduce the product in the market. The development cost of the product was Rs. 15 million. The expected useful life of the product is 5 years with no residual value, however, during this year production lasted only for six months.

**Required:**

Determine the Cost of Intangible Asset and expense to be recognized in the Profit and Loss Account. **03**

**Q.3.** A company has been following cost model under IAS 16 for number of years and now on January 01, 2015 decided to change from cost model to revaluation model. The cost of the asset was Rs. 450,000 and accounting depreciation on this asset was Rs. 150,000 while tax allowance was Rs. 290,000. The asset revalued at the start of year to Rs. 350,000 with remaining useful life of 10 years. The tax rate of depreciation has been 25% on reducing balance basis while in accounting asset is depreciated on straight line basis.

The tax rate has been 33% for 2014 and 32% for current year.

**Required:**

Prepare note of Deferred Tax Expense and Deferred Tax Liability for/at December 31, 2015 to Financial Statements in comparatives. **10**

**Contd. ……..**

**Q.4.** The following is the Statement of Comprehensive Income of an entity for the year ended December 31, 2015, along with the errors and omissions:

| | Rs. (000) | Rs. (000) |
|---|---|---|
| Revenue | | 25,150 |
| Cost of sales | | (12,360) |
| Gross profit | | 12,790 |
| Operating expenses | | (2,658) |
| Operating profit | | 10,132 |
| Finance cost | (1,252) | |
| Dividend income | 500 | (752) |
| Profit before tax | | 9,380 |
| Tax expense | | (4,650) |
| Profit after tax | | 4,730 |

The following information is also relevant for finalization of Statement of Comprehensive Income for the year then ended: -

- During the year goods have been sent on sale or return basis amounting to Rs. 1,000,000 have been treated as sales. The company charges markup of 25% on all goods it sells to the customers.
- At the start of current year the company sold goods along with service contract of three years. The company received full amount for sale of goods as well as for rendering of services. The services fee agreed for three years was Rs. 300,000.
- The entity recognized dividend from an investment in other company declared by that entity after the year end. The tax expense also includes tax on dividend @ 10%.
- The finance cost recognized in the Income Statement includes Rs. 550,000 incurred on the construction of a qualifying asset, which was completed during the year, having useful life of 5 years, being depreciated on straight line basis and depreciation for 3 months has been recognized on that asset.
- The carrying value of assets exceeded the tax base of assets by Rs. 4.5 million however; no deferred tax has been recognized in the above Financial Statements.
- The tax rate can be taken @ 32% for current and deferred tax calculation.

**Required:**

Redraft the Statement of Comprehensive Income. **15**

**Q.5.** The entity has recently entered into a contract with the Government to construct a bridge on a river. The estimated cost of the contract was Rs. 200 million at the time of signing of the contract. After signing of the contract the cost has been escalated significantly but no escalation clause was agreed in the contract. The total cost incurred at the year-end was Rs. 120 million and future estimated cost at the year-end is Rs. 130 million. The entity uses cost to cost basis as method for determination the stage of completion. The total estimated revenue at the year-end is Rs. 220 million. Progress billings raised at the year-end are Rs. 100 million however, only Rs. 85 million has been received.

**Required:**

Prepare Extract to Financial Statements. **08**

**Contd. on back**

**Q.6.** The company has entered into a sale and back contract on July 01, 2015, the terms and conditions were as follows: -

- The fair value of the asset and present value of minimum lease payments was Rs. 255,000
- The asset sold to leasing company for Rs. 270,000.
- The remaining useful life and lease term are 5 years.
- The carrying value of the asset is Rs. 150,000.

**Required:**

Discuss the Accounting Treatment of Sale and Lease Back and pass necessary double entries for recognition of Sale and Lease Back Transaction. **10**

**Q.7.** A company has started the construction of a qualifying asset and borrowed a specific loan of Rs. 50 million on July 01, 2014 @ 12.5% pa; unused funds can be invested @ 4% pa.

The expenditure incurred on the asset was evenly distributed over the year. Due to Government intervention project was suspended for one month during the year.

**Required:**

Calculate the Borrowing Cost to be capitalized. **10**

**Q.8.** An entity has entered into a construction contract during the current year, the detail of which is as under: -

- The fixed price of the contract is Rs. 2.5 million and construction time agreed to complete is one and half year. Total estimated cost to complete the contract will be Rs. 2.1 million excluding penalty. The cost incurred to date is Rs. 1.10 million.
- The mobilization advance received is Rs. 0.5 million to be adjusted entirely against the progress billings in the current year.
- If the contract is completed before the agreed date, the contractor will get incentive of 5% of the contract price, however, if there is a delay in the completion of the contract a penalty of 2% will be charged. On June 30, 2015, it is probable that the contract will not be completed within the stipulated time.
- The progress billings stands at Rs. 1.12 millions and receipts are Rs. 0.75 millions.
- The work certified by the independent surveyor is Rs. 1.3 millions.

**Required:**

Prepare extract to Statement of Financial Position and Statement of Comprehensive Income. **15**

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

**Corporate|AGP|PG|PUBLIC Sectors**

## Management Accounting (03.05.2016)

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

**Additional time – 15 min for Paper Reading**

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**

### Attempt all Questions

**Q.1.** Rasheed Textiles has two projects under consideration, Project A and Project B. The cash flows of the projects are given as follows:

| Year | Project A | Project B |
|---|---|---|
| 0 | (1200) | (800) |
| 1 | 200 | 50 |
| 2 | 300 | 50 |
| 3 | 400 | 400 |
| 4 | 450 | 500 |
| 5 | 500 | 600 |

The discount factor of the company is 10%. Ignore the effect of any taxation.

**Required:**

Calculate which project is better under each of the following methods: **15**

**i.** Payback

**ii.** Discounted Payback

**iii.** NPV

**iv.** IRR

**Q.2.** Following data has been collected by the Management Accountant for preparing cash budget of Superior Business for the year ending on 31st December 2017.

Cash balance on 01.01.2017 will be Rs. 50,000

| Month | Sales | | Purchases | |
|---|---|---|---|---|
| | Cash Sales (Rs.) | Credit Sales (Rs.) | Cash Purchases (Rs.) | Credit Purchases (Rs.) |
| **2016** | | | | |
| November | 3,000 | 50,000 | 1,000 | 40,000 |
| December | Nil | 60,000 | 2,000 | 50,000 |
| **2017** | | | | |
| January | 1,000 | 90,000 | 2,000 | 20,000 |
| February | Nil | 80,000 | 1,000 | 30,000 |
| March | 3,000 | 50,000 | Nil | 40,000 |
| April | 2,000 | 90,000 | 3,000 | 30,000 |
| May | 1,000 | 60,000 | Nil | 40,000 |
| June | 2,000 | 80,000 | 1,000 | 30,000 |

**Contd. on back**

**NOTE:**

- Creditors are paid in the next month of purchases.
- 60% Debtors pay in the month of sale; 20% pay in the next month, and 18% pay in the third month.

Following payments are expected in the months given below:

| Payments | January | February | March | April | May | June |
|---|---|---|---|---|---|---|
| Payments of dividends | 30,000 | - | - | - | - | - |
| Repayment of loan | - | 20,000 | - | - | 30,000 | - |
| Interest payment | - | 2,000 | - | - | 3,000 | - |
| Purchase of assets | - | 25,000 | - | - | 30,000 | - |
| Salaries | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Expenses | 12,000 | 5,000 | 20,000 | 10,000 | 15,000 | 12,000 |

Following receipts of cash are expected in the months given below:

| Receipts | January | February | March | April | May | June |
|---|---|---|---|---|---|---|
| Receipt of dividends | 5,000 | - | - | - | - | - |
| Sale of assets | - | 20,000 | - | - | - | - |

## Required:

Prepare Cash Budget for all months of the year 2017 of the Superior Business. Schedule of monthly receipts from the debtors should be presented separately. **20**

**Q.3.** Following information is available regarding two products produced by ABC Manufacturers for the coming year:

| | Product A | Product B |
|---|---|---|
| Sale price per unit | Rs.70 | Rs. 65 |
| Variable cost per unit | Rs. 35 | Rs. 35 |
| Production time per unit | 3 hours | 2 hours |
| Available maximum market per year | 5,000 units | 7,000 units |
| Present production per year | 5,000 units | 4,000 units |

| | |
|---|---|
| Total Fixed Costs per year | Rs.110,000 |
| Maximum production capacity per year | 25,000 hours |

**Proposal:**

A marketing firm has proposed that it can increase the available market for these products. The details of the proposal are as follows:

Additional marketing cost per year Rs. 50,000

New market after additional marketing for Product **A** will be 7,000 units and for Product **B** it will be 9,000 units.

**Contd…..**

**Required:**

Guide the Management as to how many numbers of units of each product should be produced and sold. Make income statement under marginal costing approach to show profit under the following three options, also give your recommendations: **15**

- **(i)** Existing production
- **(ii)** Maximum possible production without additional marketing
- **(iii)** Production after accepting additional marketing proposed.

**Q.4.** The Telecom Co. is a company specializing in the provision of telephone systems for commercial clients. There are two parts to the business:

- Installing telephone systems in businesses, either first time installations or replacement installations;
- Supporting the telephone systems with annually renewable maintenance contracts.

Telecom Co. has been approached by a potential customer, Plus Co. who wants to install a telephone system in new offices it is opening. Whilst the job is not a particularly large one, Telecom co is hopeful of future business in the form of replacement systems and support contracts for Plus Co. Telecom Co. is therefore keen to quote a competitive price for the job. The following information should be considered:

- One of the company's salesmen has already been to visit Plus Co. to give them a demonstration of the new system, together with a complimentary lunch, the costs of which totaled Rs.500.
- The installation is expected to take one week to complete and would require three engineers, each of whom is paid a monthly salary of Rs.5,000. The engineers have just had their annually renew-able contract renewed with Telecom Co. One of the three engineers has spare capacity to complete the work, but the other two would have to be moved from Contract **X** in order to complete this one. Contract **X** generates a contribution of Rs.6 per engineer hour. There are no other engineers available to continue with Contract **X** if these two engineers are taken off the job. It would mean that Telecom Co. would miss its contractual completion deadline on Contract **X** by one week. As a result, Telecom Co. would have to pay a one-off penalty of Rs.600. Since there is no other work scheduled for their engineers in one week's time, it will not be a problem for them to complete Contract **X** at this point.
- Telecom Co.'s technical advisor would also need to dedicate eight hours of his time to the job. He is working at full capacity, so he would have to work overtime in order to do this. He is paid an hourly rate of Rs.45 and is paid for all overtime at a premium of 50% above his usual hourly rate.
- Two visits would need to be made by the site inspector to approve the completed work. He is an independent contractor who is not employed by Telecom Co. and charges Plus Co. directly for the work. His cost is Rs.250 for each visit made.
- Telecom Co.'s system trainer would need to spend one day at Plus Co. delivering training. He is paid a monthly salary of Rs.1,600 but also receives commission of Rs.130 for each day spent delivering training at a client's site.
- 120 telephone handsets would need to be supplied to Plus Co. The current cost of these is Rs.18.00 each, although Telecom Co. already has 80 handsets in inventory. These were bought at a price of Rs.17.00 each. The handsets are the most popular model on the market and frequently requested by Telecom Co.'s customers.

**Contd. on back**

- 1,000 meters of cable would be required to wire up the system. The cable is used frequently by Telecom Co. and it has 200 meters in inventory, which cost Rs.1.25 per meter. The current market price for the cable is Rs.1.35 per meter.
- Plus Co. would also need a computerized control system called 'Swipe 2'. The current market price of Swipe 2 is Rs.11,000 although Telecom Co. has an older version of the system, 'Swipe 1', in inventory, which could be modified at a cost of Rs.4,500. Telecom Co. paid Rs.5,500 for Swipe 1 when it ordered it in error two months ago and has no other use for it. The current market price of Swipe 1 is Rs.5,400 although if Telecom Co. tried to sell the one they have, it would be deemed to be 'used' and therefore only worth Rs.3,200.
- You should assume that there are four weeks in each month and that the standard working week is 40 hours long.

**Required:**

Prepare a Cost Statement, using relevant costing principles, showing the minimum cost that Telecom Co. should charge for the contract. Make DETAILED notes showing how each cost has been arrived at and explaining why each of the costs above has been included or excluded from your cost statement? **20**

**Q.5.** The Rome group comprises two companies, **S Co.** and **Z Co.** **15**

**S Co.** is a trading company with two divisions: The Design division, which designs wind turbines and supplies the designs to customers under licenses and the Gearbox division, which manufactures gearboxes for the car industry.

**Z Co**. manufactures components for gearboxes. It sells the components globally and also supplies **S Co.** with components for its Gearbox manufacturing division.

The financial results for the two companies for the year ended 31 May 2014 are as follows:

| | S Co. | | Z Co. |
|---|---|---|---|
| | Design Division Rs.'000 | Gearbox Division Rs.'000 | Rs.'000 |
| External sales | - | - | 8,010 |
| Sales | 14,300 | 25,535 | 7,550 |
| | | | 15,560 |
| Cost of Sales | (4,900) | (16,200)* | (5,280) |
| Administration Costs | (3,400) | (4,200) | (2,600) |
| Distribution Costs | – | (1,260) | (670) |
| Operating Profit | 6,000 | 3,875 | 7,010 |
| Capital Employed | 24,000 | 32,500 | 83,000 |

* Includes cost of components purchased from Z Co.

**Required:**

Discuss the performance of **Z Co.** and each division of **S Co**. calculating and using the following three performance measures:

**(i)** Return on Capital Employed (ROCE)
**(ii)** Asset Turnover
**(iii)** Operating Profit Margin

**Contd……**

**Q.6.** Dr. Nadeem has setup a small private clinic, He charges Rs. 500 per patient for consultation while he estimates variable expenses to be Rs. 180 per patient. It includes nurses' time for taking temperature, measuring blood pressure etc. The clinics' fixed expenses amount to Rs. 2,000,000 per year.

**Required:**

**(a)** Compute Contribution Margin per patient. **03**

**(b)** Compute Contribution Margin Ratio. **04**

**(c)** Compute Break-even point in number of patients and in consultation fees. **04**

**(d)** Compute the number of patients that must visit the clinic in order to earn target profit of Rs. 1,800,000 per year. **04**

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# Pakistan Institute of Public Finance Accountants

## Summer Exam-2016

Corporate Sector

## Audit, Assurance & Ethics (04.05.2016)

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

Additional time – 15 min for Paper Reading

**[Instructions]**

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Start each question from fresh page.**
- **Book Allowed – International Auditing & Assurance Standards**

### Attempt all Questions

**Q.1.** Explain, with reasons, the possible audit opinion which may be given in case of each of the following cases (each part is to be treated independently and answered separately):

**(a)** In a company whose fixed assets comprise 60% of total assets, Inventories as per physical count performed in the presence of auditor differ from inventories recorded in the Financial Statements by a material amount. **02**

**(b)** The company does not account for provision for environmental damages in its Balance Sheet. As per prevailing laws of the city, a fine of Rs. 1 million is imposed if chemical released in drainage system of the city is more than 1 ton. As per estimates, the chemical released for the year is 2.4 tons. The company's profit for the year is Rs. 10 million. **02**

**(c)** A beverage-manufacturing company formed a year ago has not tested its fixed assets for impairment **02**

**(d)** The management does not permit the auditor to send confirmation letters to trade receivables, which are the most significant item on the balance sheet. **02**

**(e)** A company applies straight-line basis for recording of depreciation whereas the commonly used basis in the industry is the Reducing Balance Method. **02**

**Q.2. (a)** What is the difference between reasonable assurance and moderate (negative) assurance? Provide one example each of an engagement resulting in reasonable and moderate assurance. **04**

**(b)** Differentiate between the procedures performed by the practitioner when he is providing reasonable as compared to moderate assurance. **04**

**Q.3.** You are an engagement manager in Alba & Co Chartered Accountants, Winterfell Company Limited, a listed company, is an audit client of your firm. The Company is engaged in the business of producing and selling packed juices. The Company had a good year end with 20% increase in profitability.

The Company usually starts building up stock two month in advance of the summer season. The Company uses the following method to measure its stock.

| | | |
|---|---|---|
| Raw materials | - | On weighted average cost comprising inward freight |
| Finished Goods | - | On manufactured cost measured using absorption costing comprising labor, raw material and overheads |

You are now reviewing the working papers relating to the planning phase of the engagement.

**Contd. on back**

**(a)** While reviewing the working papers on inventory what are the risks (assertion wise) you expect that the audit team should have identified as part of formulating audit plan? **08**

**(b)** Describe eight internal controls over raw material and finished goods handling which you expect to test during the audit of Winterfell Company. **08**

**Q.4.** As per ISA 620, if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall evaluate the competence, capabilities and objectivity of that expert.

**(a)** Define 'management's expert' and 'auditor's expert' **04**

**(b)** What factors need to be considered when determining the nature, timing and extent of procedures when relying on the work of an expert? **05**

**(c)** Can an auditor mention / refer the use of the expert in his audit report? If yes, in what circumstances can such a reference be made? **03**

**Q.5.** Mr. Hameed is Quality Assurance partner in a large sized firm. You are working under him as Quality Assurance Manager. You received an email from Hameed to address the following ethical matters:

- Talha Khan is an engagement manager of the audit of Whatoz Cement Company (WCC) a listed client. Talha and Umer Naeem are friends since school days and both are neighbors as well.
- The Chief Financial Officer, Mr. Naeem ul Haq, of WCC is the father of Umer Naeem.
- One of the assurance client Tirmazi Traders (Pvt.) Limited has approached your firm to facilitate them in preparation of the fixed asset register. The relevant assurance partner has asked Mr. Hameed whether the firm can provide such service.

**Required:**

With reference to the code of Ethics, briefly describe the ethical risk/ threat involve in above situations. For each matter, also describe safeguards that your firm should take to reduce the ethical risk identified. **10**

**Q.6. (a)** As required by ISA-320 - Materiality in planning and performing an Audit, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements and of uncorrected misstatements on the audit. Materiality and factors affecting its computation and evaluation need to be documented. **06**

What are the amounts and factors that the auditor is required to document in accordance with ISA-320?

**(b)** How an auditor should prepare sufficient audit documentation to enable an experienced auditor, having no previous connection with the audit, to conclude that audit documentation has been done in accordance with ISA-230-Audit Documentation? **06**

**Contd……**

**Q.7.** You are part of the audit team engaged on the audit of Salwa Power Limited. In planning meeting of audit, you have been given the area of Revenue and Trade Receivables. **08**

The engagement manager has informed you that after performing test of controls (TOCs), if the client's controls are operating effectively, you can use substantive analytical procedure to bring efficiency in your work without increasing audit risk.

What are the REQUIREMENTS you have to consider, as laid down by ISA 520, when designing and performing substantive analytical procedures?

**Q.8.** Explain the impact of following on audit report if management does not agree. Also suggest one alternative solution in each case.

**(a)** The management of ABC limited has not allowed audit team to perform stock take at year end (31 December 2015) because stock was not arranged for counting. Stocks amount to Rs. 300 million at year end. **05**

Total current assets of the Company amounts to Rs. 1000 million and total assets of the Company amounts to Rs. 2000 million. The profit before tax amounts to Rs. 500 million.

**(b)** The license of XYZ Pharmaceutical (the Company) has been cancelled after the decision of Supreme Court. The Company cannot operate without having a valid license. You are of the opinion that the Company is not a going concern. But the Financial Statements of the Company are prepared on going concern basis. **05**

**Q.9.** **(a)** Define Subsequent events as stated in ISA-560 – Subsequent Events? **02**

**(b)** You are an audit partner at Helf and Pott Auditors, responsible for the audit of Light and Life Limited Company (a listed client). All audit work is complete, Board of Directors has approved the Financial Statements and you have also signed the audit report. The Financial Statements of the Company are not yet issued for publication to shareholders and general public. **12**

You came to know that the Executive Management has not disclosed to the audit team a major litigation, consequently no provision has been recorded in the Financial Statements nor any contingency has been disclosed. As per the relevant Financial Reporting Framework (IAS-10), amendment of the Financial Statements to give effect to the subsequent event has not been made in the Financial Statements.

State the actions you will have to take in the above situation. Also explain what will be your course of action if:

**(a)** The Management amends the Financial Statements.

**(b)** The Management does not amend the Financial Statements.

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