



**Pakistan Institute
of Public Finance Accountants**

Corporate Sector

**Model
Solutions**

Summer Exam-2022

MODEL SOLUTIONS – DISCLAIMER

INTRODUCTION

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

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

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

DISCLAIMER

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

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

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

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

Financial Accounting

(Level-3)

Summer Exam-2022

Solutions – Financial Accounting

Q.1. Rs. 45,000 + 8,000 – 21,000 = **Rs. 32,000** (3) 05

a

Profit: (2)

Pervaiz Rs. 19,200 = 3/5 (32,000)

Asif Rs. 12,800 = 2/5 (32,000)

Q.1.

b

Capital Accounts							
	Pervaiz	Asif	Rashid		Pervaiz	Asif	Rashid
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Goodwill (2.5)	25,000	15,000	10,000	Balance b/d (1)	145,000	95,000	
Bal c/d	169,200	112,800	65,000	Cash / Bank (1)			75,000
				Goodwill (3)	30,000	20,000	
				Revaluation (2.5)	19,200	12,800	
	<u>194,200</u>	<u>127,800</u>	<u>75,000</u>		<u>194,200</u>	<u>127,800</u>	<u>75,000</u>
				Bal b/d	169,200	112,800	65,000

Total Marks 15

Q.2.

	Rs. 000
Site preparation costs(2)	240
Materials used(1)	1,500
Labour costs (3,190 - 90)(2)	3,100
Testing of various processes in factory(2)	150
Consultancy fees re installation of equipment(2)	220
Relocation of staff to new factory(1)	-
General overheads(1)	-
Costs to dismantle the factory at end of its useful life in 10 years' time(1)	<u>100</u>
Costs to be Capitalized(3)	<u>5,310</u>

Total Marks 15

Summer Exam-2022

Solutions – Financial Accounting

Q.3.

a

Riaz Limited	
Statement of Profit or Loss for the year ended June 30, 2017	
	Rs. 000
Sales(1)	240,000
Cost of sales 54,000 + 170,000 – 50,000– 4,500 (4)	(169,500)
Gross profit	70,500
Other income(1)	400
	70,900
Administration cost 17,000 + 1,120 – 385 (3)	(17,735)
Selling & distribution expense 20,000 – 1,200 + 400 + 4,500 (4)	(23,700)
Financial charges 2,700 + 650(1)	(3,350)
Profit before tax	26,115
Income tax expense(1)	(7,700)
Profit for the year	<u>18,415</u>

15

Q.3.

b

Riaz Limited	
Statement of Financial Position as at June 30, 2017	
Non-Current Assets:	Rs. 000
Property Plant & Equipment (200,000 – 120,000 + 1,600 – 400) (4)	81,200
Current Assets:	
Inventory 50,000 + 2,650(1)	52,650
Receivable and advances 13,000 – 650 (1)	12,350
Prepaid rent(1)	385
Cash and bank(1)	40,000
	105,385
Total Assets	<u>186,585</u>
Capital and Liabilities	
Share capital(1)	35,000
Un- appropriated profit (66,820 + 18,415)(1)	85,235
	120,235
Non-Current liabilities	
Bank loan (52,000-16,000)(1)	36,000
Current liabilities	
Trade payables 10,000 + 2,000 (1)	12,000
Current portion of bank loan 52,000 x 4 / 13(1)	16,000
Income tax payable 7,700 – 6,000 advance(1)	1,700
Interest payable(1)	650
	30,350
Total Capital and Liabilities	<u>186,585</u>

15

Working:

$$1120 = .5x + 1.1x$$

$$700 = x$$

$$1.1 * 700 = 770 * 6/12 = 385$$

Total Marks

30

Summer Exam-2022
Solutions – Financial Accounting

Q.4.

Hamza	
Inventory at 31st March 2016	
	Rs.
Inventory at 6 April 2016(0.5)	57,760
Purchases(0.5)	(6,100)
Sales $(9,600 \times 4/5)$ (2)	7,680
Sale or return $(2,100 \times 4/5)$ (2)	1,680
Customer returns $(650 \times 4/5)$ (2)	<u>(520)</u>
Inventory at 31 March 2016 (1)	<u>60,500</u>

Total Marks 08

Q.5.

Provision For Doubtful Debts Account			
for the year ended 31 July 2016			
	Rs.		Rs.
Balance c/d (0.5)	3,175	Balance b/d (0.5)	1,940
	_____	Income statement (1)	<u>1,235</u>
	<u>3,175</u>		<u>3,175</u>
		Balance b/d	3,175
General provision: (2)			
$48,500 - 2,100 - 900 = 45,500 \times 5\% = \text{Rs.}2,275$			
Income statement: (2)			
$2,275 + 900 = 3,175 - 1,940 = \text{Rs. } 1,235$			

Total Marks 06

Q.6. The financial statements of Hassan Traders should be adjusted taking into account the effect of going concern.

Even though going concern problems did not exist at the year end, the basis of preparation of financial statements must be amended (e.g., using break-up value basis) because IAS 10 specifically requires the preparation of financial statements on an alternative basis if events after the reporting period indicate that the going concern assumption is no longer appropriate.

Answers can vary as appropriate

Total Marks 06

Summer Exam-2022

Solutions – Financial Accounting

Q.7. Costs should include the following: 03

- a** Costs of purchase (including taxes, transport and handling) net of trade discounts.
Costs of conversion (including fixed and variable overheads).
Other costs incurred in bringing the inventories to their present location and condition

Q.7. Inventory costs should not include: 03

- b** abnormal waste
storage costs
administrative overheads not related to production
selling costs
interest cost when inventories are purchased with deferred settlement terms

Total Marks 06

Q.8.

Tehreem			
Current Account For the Year Ended 31 January 2015			
	Rs.		Rs.
Interest on drawings (0.5)	350	Balance b/d (2)	5,000
Drawings (0.5)	5,000	Interest on capital (0.5)	4,900
Balance c/d (1)	71,068	Salary (0.5)	17,400
		Profit share (0.5)	49,218
	<u>76,418</u>		<u>76,418</u>
		Balance b/d (0.5)	71,068

Total Marks 06

Q.9. The liability for the payment of the damages should be adjusted in the financial statements.

The decision of the court against Dilawar (Private) Limited provides evidence of conditions existing at the year end, i.e., the liability to pay damages to the customer existed at 30 June 2014.

The decision of the court just confirmed this fact. The argument of the CFO is not valid because the liability did not arise because of the decision of the Court but the supply of faulty goods to the customer (i.e., the obligating event) which had occurred before the year end.

Answers can vary as appropriate

Total Marks 08

Business Commn. & Report Writing

(Level-3)



Summer Exam-2022

Solutions – Business Communication & Report Writing

Q.1. The examinee may explain in simple words and in more elaborated form. The question requires a conceptual answer.

Context generally refers to the circumstances that form the setting for an event, statement, or idea, and in terms of which it can be fully understood.

Context is one of the components of interpersonal communication.

Context refers to the specific dynamics that impact on a particular interpersonal communication. They include three dimensions:

1. **Physical** – i.e. where the communication takes place e.g. school vs. funeral, parlour vs. office;
2. **Social/psychological** – This dimension includes status (e.g. teacher/pupil), culture and the roles and games people play; and
3. **Temporal** – the timing of the communication both in respect of the time of day, but also the timing of the communication relative to other things – e.g. after a break, or telling a joke after delivering bad news

Total Marks 06

Q.2. Stakeholder: A stakeholder is a person, group or organisation that has a stake in the organisation – i.e. an interest to protect in respect of what the organisation does and how it performs. Common stakeholders and the interests that they have at stake:

(The examinee may write any 3 of the following)

Stakeholder	What is at stake?
Shareholder	Funds invested
Directors, managers, employees and trade unions	Livelihoods, careers and reputations
Customer	Their custom, continued supply of goods, replacement parts and after-sales service
Suppliers and other business partners	The items they supply, continued sales
Lenders	The capital and interest that needs to be repaid
Government and its agencies	National infrastructure, employee welfare, social sustainability and corporate responsibility
Natural environment	The environment shared by all

Total Marks 05



Summer Exam-2022

Solutions – Business Communication & Report Writing

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

The Qualities useful information must include:

1. **Accurate:** State any assumptions and be careful when rounding.
2. **Complete:** Include everything that the recipient needs for a complete picture.
3. **Cost-beneficial:** The benefit from collating and communicating the message must be greater than the cost.
4. **User-targeted:** Consider the needs of the user.
5. **Relevant:** Omit irrelevant information however 'interesting' it may be. Extra information simply dilutes the key message that the sender is attempting to send.
6. **Authoritative:** Information should come from a reliable source.
7. **Timely:** No matter how accurate or perfect information may appear to be its use is limited to the time that the recipient can use it. Therefore be aware of the decay associated with the usefulness of information over time.
8. **Easy to use:** Consider the presentation and length of the communication.

Total Marks 05

Q.4. Resolving conflicts: Even healthy relationships experience conflicts. Any two persons can't agree over same things all the time. Rather than avoiding the conflict, conflict resolution is more important, crucial and worth learning.

Try to resolve disagreements when they arise. Become an effective mediator. If group members quarrel over personal differences, sit down with both the parties and help sort out their differences. Assuming such leadership role, will enable you to receive respect and appreciation from those around you.

Total Marks 04

Q.5. Meeting: A meeting is said to be a gathering of two or more people where purposeful discussion takes place on certain matters. **02**

Q.5. (The answer may be shorter than the given solution) **06**
b 3 Types of meetings and their purposes

- (i) **Informational meetings:** These meetings clarify the topic under discussion and provide information. In such meetings participants learn, ask questions and try to understand the information being provided. Here problems are not solved, no recommendations are made. Participants attend these meetings with the sole objective of being informed and assimilate the information. e.g. announcement of new mission statement.
- (ii) **Suggested solution meetings:** Here the core purpose is to find suggested solution to some core issue. Recommendations are sought for and comments are made on the options recommended. Often no decision is made, meeting tends to remain explanatory and informational. A final suggested solution is worked out and forwarded for approval either from higher authorities or is kept for overall group's consensus.
- (iii) **Problem-solving meetings:** The purpose of these meetings is to work out some solution. The problem is presented, then suggested solutions are gathered, these recommendations are evaluated and then final decision is made for further action.

Total Marks 08



Summer Exam-2022

Solutions – Business Communication & Report Writing

Q.6. (The answer must be shorter than the given solution)

THE ‘YOU’ APPROACH: Business messages should focus on how the recipient will benefit, for example what they will receive or what they will learn. This is commonly referred to as the ‘you’ approach. Considerate communication adopting the ‘you’ approach will demonstrate the following characteristics:

- Focuses on ‘you’ instead of ‘I’ or ‘we’
- Make sure you understand people’s needs.
- However, try to avoid YOU in sensitive cases – express a direct negative in passive voice
- Empathize with the audience and exhibit interest in them. This will stimulate a positive reaction from the audience.
- Refer to the benefits that are specific to the audience.
- Refer to something specific about their situation that shows you are communicating with them specifically and are thinking about them.
- Emphasize the positive. Show optimism towards your audience.
- Emphasize what is possible rather than what is impossible
- Stress positive words such as thanks, warm, healthy, committed and help.

Examples:(any two examples required; the examples may vary)

(i) Instead of saying:

“you can’t travel business class on short haul flights”

One could say, “you can travel business class on long haul flights”.

(ii) Instead of saying:

“I am delighted to announce that we will be maintaining prices at existing levels.”,

One should say:

“You will be able to benefit from the same prices as you paid last year.”

(iii) Instead of saying:

“You cannot return the items if they are soiled or not in a saleable condition”.

One could say

“Items may be returned if they are clean and in a saleable condition”.

Total Marks 07

- Q.7. Self-concept:** Self-concept provides the basis for intrapersonal communication, because it governs **02**
a how a person perceives one’s self and is oriented towards other individuals.



Summer Exam-2022
Solutions – Business Communication
& Report Writing

- Q.7. The 3 factors of Self-Concept** **06**
- b**
- i **Beliefs:** are either descriptive or prescriptive, they represent basic personal attitude and inclinations towards what is true or false, good or bad.
 - ii **Values:** are deep-rooted morals, standards and ideals, which are consistent with beliefs about good and bad, right and wrong, ideas and actions.
 - iii **Attitudes:** are learned predispositions and tendencies towards or against the subject matter, ideals that stem from and are generally consistent with values. Attitudes often are global and typically influenced by emotions.
- Total Marks 08**
- Q.8. PEST: Political (P), Economic (E), Social (S) and Technological (T)** **04**
- a** **SWOT: Strengths (S), Weaknesses (W), Opportunities (O) and Threats (T).**
- Q.8. Delivering reports: A written business report may be delivered in a number of ways. For** **03**
- b** example:
- 1. Hold a meeting to discuss the issues then write a report
 - 2. Send a written report then follow it up with a meeting to discuss the report.
 - 3. Deliver the report in the form of a presentation.
- Total Marks 07**
- Q.9. Features of a blog: (required 3)** **06**
- a**
- 1. Contents generally are listed in chronological order with recent post on top.
 - 2. Content is regularly updated.
 - 3. Allows the audience to leave comments that indeed can be regarded as a great way to build relationships with the visitors of these sites.
 - 4. It is very easy to add new content i.e. click on a. new post b. add content c. click publish.
 - 5. It can really establish you as an industry leader by providing you an opportunity to gain authority and credibility.
- Advantages: (required 3)**
- 1. Blogs let you interact with people and get their feedback and that too at no or very little cost.
 - 2. Blogs are very easy to create and maintain. It takes as little as ten minutes to get registered and start blogging. After having created your blog, all that is required to do is to provide as much contents as you can on a regular basis.
 - 3. Blogs are commonly referred to as search engine friendly. The posts and pages are automatically linked by blogs which enables search engines to find, crawl and index the blogs. With relevant keywords in your blog you could have your pages ranking higher in search engines.
 - 4. They are normally regularly updated and are great learning experience.
 - 5. It satisfies the need to express one's feelings, it is a fun for everyone.



Summer Exam-2022
Solutions – Business Communication
& Report Writing

- Q.9.** (i) **Bandwidth:** bandwidth is a measure of the amount of data that can be transferred from a website to clients when they access it. **08**
b OR

Bandwidth is the amount of data that can be transmitted in a fixed amount of time. For digital devices, the bandwidth is usually expressed in bits per second(bps) or bytes per second.

- (ii) **E-Commerce:** E-Commerce describes the suite of tools required to take orders and payment for selling products online. Common examples include PayPal and eBay.
- (iii) **Free Web hosting** is exactly that – zero cost to the user. The Web host covers their costs (and profit) through selling advertising that is added automatically to Web pages through pop-ups, frames and scripts. Because of the zero cost to users the quality of service (space, bandwidth or software) is typically lower than that of paid-for Web hosts.
- (iv) **HTML**(hypertext mark-up language) is a programming language used to create web pages

Total Marks 14

- Q.10.** (i) **Letters of enquiry:** By definition a letter of enquiry represents a request for further information. To increase the likelihood of the recipient replying with all the relevant information you need you should make sure you explain the problem clearly and specifically. **06**
a

- (ii) **Follow-up letters:** Follow-up letters are sent to promote or monitor a previous communication, for example a letter, a meeting, interview or sales order. They can also be used to get feedback on a schedule, requirements or effectiveness of some kind of activity or service.
- (iii) **Circulars:** A circular letter provides information to a large group of people. Circular letters should get straight to the point and not bury news amongst lots of other points which would run the risk of readers losing interest and missing the main point.

- Q.10.** **The job application letter may be similar to one given below:** **13**
b Sender's Address
Date

Receiver's name and Designation
Name of the organization
Address

Dear Mr. Name,
Subject line

I am writing in response to your advert for the post_____, (reference) (date) explain that similar experience gained in your previous role with another organization, how particularly it is relevant to your role. Give details and tell how you will be useful for them.
(May end as...) Please find enclosed my CV for your review. I look forward to hearing from you.

Yours sincerely,
Signature
Name

Total Marks 19



Summer Exam-2022
Solutions – Business Communication
& Report Writing

Q.11. Format of a Circular

Company Name and logo

Circular letter

Date

Reference

Dear Colleague,

Subject

This is to inform you all that Independence Day 2019 will be celebrated in the office premises at _____ (Time) with the hoisting of the flag by Mr.ABC, The director.

Thereafter, the Cultural Committee will present _____ and _____ (programs)

Various awards will be presented to the department's heads _____ for their outstanding performance.

Refreshment will be served in _____ (place)

You are requested to make this celebration a success by your participation and presence.

Complimentary close

Signature

Name, designation

Total Marks 12

Q.12. The examinees are expected to assume/imagine and write various ideas depending upon their understanding and manipulating skills. However, the **Conclusion** part may contain points like the following ones, **(require 5 only)**

1. Employee retention challenges
2. Cultural challenges
3. The loss of team mentality/ synergy
4. The dangers of inflating value
5. Triggering dishonesty in relationships
6. Ambiguities
7. Restructuring
8. Work environment changes
9. Work ethics
10. Benchmarks, Standards, etc.

Total Marks 05

Taxation

(Level-3)

Taxation (Corporate) Summer 2022

Question 1

Mr. Qasim
Computation of Taxable Income
Tax year 2022

		<u>Rs.</u>
Income from Salary		
Basic salary (600,000 x 12)		7,200,000
Medical allowance (66,000 x 12)	792,000	
Less: Exempt upto 10% of basic salary	<u>720,000</u>	72,000
Bonus: not received in the tax year 2022		-
Company maintained car for personal use (1,900,000 x 10% x 9/12)		142,500
Free lunch provided through an arrangement by the employer		125,000
Special allowance to meet office expenditures	240,000	-
Less: Actual expenditure for office purposes	<u>150,000</u>	90,000
Contribution to PF		
Actual contribution by DPL 60,000 X 12	720,000	
Less: 10% of basic salary or 150,000 (whichever is lower)	<u>150,000</u>	570,000
Taxable salary		<u>8,199,500</u>
Income from other sources		
Gross dividend taxable under FTR (575,000 + 62,500) / 85%	750,000	-
Total income		<u>8,199,500</u>
Less: Zakat deducted under Zakat Ordinance		<u>62,500</u>
Total income before profit on debt for housing		8,137,000
Less: Profit on debt for housing:		
Actual amount 25m x 15% X 7/12	2,187,500	
Given amount in the Ordinance	2,000,000	
50% of taxable income i.e. 50/150 X 8,137,000	<u>2,712,333</u>	2,000,000
(Whichever is Lower)		
Taxable income		<u>6,137,000</u>
Tax liability		
Income tax on Rs. 5,000,000		670,000
Income tax on Rs. 1137000 @ 22.5%		255,825
		925,825
Income tax on gross dividend @ 15% of Rs. 750,000		112,500
		<u>1,038,325</u>
Less: Tax deducted by DPL	1,300,000	
Tax deducted from dividend	<u>112,500</u>	1,412,500
Tax Refundable		<u><u>(374,175)</u></u>

(15)

Question - 2a

Rs.

Income of Yameen

<u>Income from property</u>	W-1	(2,736,000 x 65%)	1,778,400
-----------------------------	-----	-------------------	-----------

Income from other source

Cash loan			3,000,000
From utilities ,cleaning and security W-2		(480,000 x 65%)	312,000
			3,312,000

Taxable income -taxable under NTR**5,090,400****Income from property****W-1**

Annual receipts		4,500,000
Less: Income chargeable under the head income from other source (75,000 x 12)		(900,000)
Rent chargeable to tax		3,600,000
Less: Repair allowance (1/5 x 3,600,000)		(720,000)
Less: Administration and collection charges of property:		
Lower of:		
4% x 3,600,000 = 144,000		
240,000 (230,000 + 10,000)		(144,000)
Income from property		2,736,000

Income from other source**W-2**

Rent charges for utilities, cleaning and security	(75,000 x 12)	900,000
Less: Utilities, cleaning and security expense	(35,000 x 12)	(420,000)
		480,000

(08)**Question 2- b****Amortization of intangibles:**

Any expenditure that provides an advantage for a period of more than one year is included in the definition of intangibles and is required to be amortized over the expected benefit period.

DL would in this case be allowed to charge only 1/12th of the expense i.e Rs. 37,500 in the relevant tax year.

Bad debts:

Only those bad debts are allowed as admissible deductions which have previously been included in the taxpayer's taxable business income.

Since the staff loan was previously offered to tax as business income, it would not be admissible.

Initial depreciation:

Plant and machinery previously used in Pakistan is not eligible for initial allowance.

In this case, the equipment was previously used in Pakistan, therefore initial allowance is not admissible.

Vehicle on Finance lease:

Entire lease rentals paid during the year, on leased assets, i.e. Rs. 400,000 shall be admissible.

However, finance charge of Rs. 100,000 and depreciation of Rs. 300,000 would not be allowable tax deduction.

(08)

Question 3- a

When the Commissioner has definite information acquired from an audit or otherwise, the commissioner is satisfied that:

- Any taxable income has escaped assessment; or
- Total income has been under assessed or assessed at too low tax rate or has been the subject of excessive relief or refund; or
- Any amount under a head of income has been misclassified.

The Commissioner considers that the assessment order is erroneous in so far as it is prejudicial to the interest of revenue.

Time period within which assessment can be amended:

The Commissioner is empowered to amend the assessment order within the later of:

- Five years from the end of financial year in which the original assessment order is issued or treated as issued by the Commissioner: or
- One year from the end of financial year in which the amended assessment order is issued or treated as issued.

(04)

Question 3- b

The Commissioner is empowered to call for the record of any proceeding in which an order was passed by any authority sub - ordinate to him for making an enquiry on his own motion or on an application made by the taxpayer for revision.

The commissioner may revise any order passed by any Officer of Inland Revenue if the assessment is not under any appeal.

The said revision shall not be prejudicial to the person to whom the order relates. It means that the commissioner does not have power of enhancement of income under this provision.

If any order is remanded back to any lower authority by the Commissioner for modification, alteration, implementation of directions or denovo proceedings, the order giving effect to the directions of the Commissioner shall be issued within one hundred and twenty days.

(05)

Question 3- c

Zeshan has to comply with the following conditions in order to submit a valid revised return:

- The revised return should be accompanied by the revised accounts
- The reasons for revision of return, in writing duly signed by the taxpayers, should be filled with the return.
- Permission of the Commissioner in writing for revision of return should be obtained. However this condition shall not apply if revised return is filed within 60 days of filling of return.
- Taxable profit declared is not less than profit determined by an order or loss declared is not more than loss determined by an order.
- Approval required from Commissioner shall be deemed to have been granted by the Commissioner if:
 - The Commissioner has not made an order of approval in writing for revision of return before the

expiration of 60 days from the date when the revision of return was sought; or
 - Taxable income declared is more than or the loss declared is less than the income or loss, as the case may be determined under Assessments.

(06)

Question 4 -a i)

Cost		4,675,000
Less: Depreciation	(4,675,000 x 10% x 50%)	(233,750)
WDV		4,441,250
Less: Depreciation	(4,441,250 x 10% x 50%)	(222,063)
WDV		<u>4,219,187</u>

Question 4 -a ii)

Consideration received		7,000,000
Less: Tax Written Down value		
Cost	7,000,000	
Less: Accumulated Depreciation (4,675,000 - 4,219,187)	<u>(455,813)</u>	<u>6,544,187</u>
Tax Gain		<u><u>455,813</u></u>

(04)

Question 4 -b**Capital gain**

Gain on sale of plot	7,000,000 - 4,000,000 x 50 %	1,500,000
Gain on sale of constructed property	14,000,000 - 9,000,000 x 75 %	<u>3,750,000</u>
Total capital gain		<u>5,250,000</u>
Tax on gain on immovable property	7.50%	<u><u>393,750</u></u>

(04)

Question 5 -a

A person may apply in writing to the Commissioner for change in tax year from special to normal. The Commissioner grants permission only if he is satisfied that it has a compelling need to use normal tax year. While giving the permission, the Commissioner may impose conditions as he may deem fit. An order of the Commissioner for change of tax year shall take effect from such date, being the first day of the normal tax year as may be specified in the order.

(02)

Question 5 -b

Tax year 2022 and the due date for filing the return of income is 30.09.2022.

(02)

Question 5 -c

The following types of payment made by a private company as defined under the companies Act, 2017 may be treated as "dividend", to the extent to which the company possesses accumulated profits:

- Payment by way of advances or loan to a shareholder; or
- any payment for the individual benefit of any shareholder.

Exceptions:

- any advance or loan made to a shareholder in the ordinary course of the business, where lending of money is a substantial part of the business of the company.
- any dividend paid which is set off by the company against any amount previously paid and treated as dividend.

(05)

Question 5 -d

Commissioner has granted Mr. Tom to use calendar year as special tax year. Therefore, period of his stay for the tax year 2022 would be counted up to 31. 12.2021. Period of stay from 1.1.2022 to 25.02.2022 would be considered for his next year's residential status.

Period of stay from 10.7.2021 to 31.12.2022 = 175 days

Therefore, Mr. Tom is a non - resident person.

(02)

Question 6 -a

Difference between zero rated supplies and exempt supplies in detail are as under

	Zero rated supply	Exempt supply
Definition	"Zero rated supply means a taxable supply which is chargeable to sales tax at 0%.	"Exempt supply" means a supply which is not chargeable to sales tax.
Goods	Goods exported or goods listed in 5th Schedule	Goods specified by FBR through notifications and goods listed in 6th Schedule
Invoice	Tax invoice shall be raised but sales tax shall be charged at 0%	No sales tax invoice is required
Input tax credit	Input tax on zero rated supplies is refundable from FBR	Input tax on exempt supplies is not adjustable nor refundable
Registration	Sales tax registration is required where a person wants to claim refund	Sales tax registration is not required where a person is engaged exclusively in exempt supplies

Question 6 -b

Where the Commissioner / FBR has reasons to believe that a registered person has issued fake invoices or is involved in tax fraud etc., he may suspend the registration of such person by an order in writing and initiate such enquiry as deem fit.

If it is confirmed, after enquiry, that the person is involved in the above offences then the person shall be blacklisted through an appealable order issued by the Commissioner.

Question 6 -c

The following persons engaged in making taxable supplies in Pakistan (including zero rated supplies) are required to be registered, namely:

- i. a manufacturer not being a cottage industry
- ii. a Tier 1 retailer
- iii. an importer
- iv. a wholesaler, dealer or distributor
- v. An exporter who intends to obtain sales tax refund against his Zero rated supplies.
- vi. a person who is required under any Federal or Provincial law to be registered for the purpose of any duty or tax collected or paid as if it were a sales tax under the Act.

Question 7

Yawar Associates (YA)
Computation of Sales tax liability
For the month of January 2022

<u>Calculation of tax liability</u>	<u>Rs.</u>	
Input tax		
Purchase of taxable goods from registered suppliers	2,000,000	
Purchase of Furniture	(150,000)	
Purchase from Fawad Corporation :Admissible as FC was blacklisted subsequent to purchases	-	
	<u>1,850,000</u>	
17% of above		314,500
Purchase of taxable goods from unregistered suppliers	450,000	-
Purchase of exempt goods from registered suppliers	600,000	-
Reversal of input tax on goods destroyed	45,000	(7,650)
		<u>306,850</u>

Apportionment of input tax

	<u>Value of supply</u>	<u>Input tax</u>
Supplies to registered persons	3,450,000	
Sales return	(100,000)	
Discount to Associate	100,000	
Correction of sales tax invoice (540,000-450,000)	90,000	
Sales to Akhtar Corporation :not chargeable in January as no payment is received not the goods are delivered to Akhtar Corp.	(225,000)	
Supplies to unregistered persons	1,000,000	
Free replacement of parts under warranty	-	
	<u>4,315,000</u>	240,083
Export	<u>1,200,000</u>	66,767
	5,515,000	306,850

Sales tax payable

Output tax 17% of Rs. 4,415,000	750,550
Less: Sales return 17% of Rs. 100,000	<u>17,000</u>
	733,550

Less: Input tax

Input tax of January 2022	240,083
Input tax b/f from December 2021	<u>265,000</u>
Total input tax	<u>505,083</u>

90 % of output tax	660,195
Whichever is lower	<u>505,083</u>
	228,467

Further tax @ 3% on Rs. 1,000,000	30,000
-----------------------------------	--------

Sales tax payable**258,467**

Refund against Zero rated supplies	66,767
------------------------------------	--------

(15)

Question 8-a

- i) To protect local industries against foreign competition.
- ii) To promote exports of the country.
- iii) To counter the effect of inflation
- iv) To promote science and innovation.
- v) To bring the investments in construction related sectors.

(04)**Question 8-b**

- i) Integrity
- ii) Objectivity
- iii) Professional competence and due care
- iv) Confidentiality
- v) Professional behavior

Integrity

Tax practioners should be straightforward and honest in all professional and business relationships. Integrity implies not just honesty but also fair dealing and truthfulness.

(04)**Question 9**

Adjustment: It means deduction of amount of duty paid on goods used in the manufacture or production of other goods from the amount of duty payable on such other goods in the prescribed manner.

Dutiable goods: It means all excisable goods specified in the First Schedule except those which are exempt under section 16 of the Act.

(02)**The End**

Management Strategy

(Level-3)



Summer Exam-2022

Solutions – Management Strategy

Q.1. It's a joint venture that strengthens a core business strategy, creates a competitive advantage, and decreases competitors from moving in on a marketplace. It allows individual companies to achieve more together than they would have on their own. Strategic alliances could be as simple as two companies sharing their technologies and /or marketing resources. Types of Strategic Alliances

- a. Joint Venture
- b. Equity Strategic Alliance
- c. Non-Equity Strategic Alliance

(2+2 Marks)

Advantages:

- I. **Sharing resources and expertise.** A strategic alliance should combine the best both companies have to offer. This can be a deeper understanding of the product, sales, or marketing knowledge, or even just more hands on deck to increase speed to market. **(01 Mark)**
- II. **New-market penetration.** In some cases, a strategic alliance gives access to new markets with a solution that wouldn't have been possible for either company on their own. For instance, companies going global often work with a trusted local partner to get an advantage in an emerging market. **(01 Mark)**
- III. **Expanded production.** When it comes to manufacturing and distributing products, strategic alliances allow partners to increase their capabilities and scale quickly to meet demand. **(01 Mark)**
- IV. **Drive innovation.** With the right alliance, partners can outpace the competition with new solutions that are a complete package for their customers. These alliances are creative and revolutionary and change the market landscape in a dramatic way. **(01 Mark)**

Summary of Advantages

Strategic alliances allow partners to scale quickly, build innovative solutions for their customers, enter new markets, and pool valuable expertise and resources. And, in a business environment that values speed and innovation.

Disadvantages:

- I. **Loss of control.** In an alliance, both organizations must surrender some control over how their business is run and perceived. A strategic alliance requires honesty and transparency, but that trust isn't built overnight. Without significant buy-in from both parties, an alliance may suffer.
- II. **Increased liability.** In a joint venture or equity strategic alliance, both companies are on the hook for the outcome. If something happens to stall production or create unhappy customers, both partners are at risk for the loss in reputation.
- III. **Strategic** alliances can fail when partners misrepresent what they bring to the table, do not fully commit to the partnership, or fail to bring their resources together effectively.

Total Marks 10



Summer Exam-2022

Solutions – Management Strategy

Q.2. Some of the common human errors in information security are as follows.

05

- i**
 - (i) Opening infected attachments or clicking on unsafe URLs.
 - (ii) Using default usernames and passwords.
 - (iii) Sharing passwords with other
 - (iv) System mis-configuration and poor patch management.
 - (v) Lost or stolen mobile devices are also another major concern that is exacerbated by the growing trend toward the use of personal devices
 - (vi) One of the leading errors made by insiders is sending sensitive documents to unintended recipients.
 - (vii) Using personally owned mobile devices that connect to the organization's network.

Q.2. To minimize the number of human-induced security breach, the most important thing is to provide information security awareness training to users and this training needs to be constantly repeated. Thus, users can be notified about possible exposure to threats and attacks. In addition to individual training in this area, it is required the creation of an organizational culture.

10

Some of the recommendations to reduce breaches caused by human error are as follows:

(i) Strong Password Policies

One way to eliminate risks introduced by human error as it relates to the use of default or weak passwords are by layering up with a second factor of authentication that uses a different channel than the first. (double authentication). Risk: A poorly chosen password may result in unauthorized access and/or exploitation of company resources.

Strong password policies help to reduce the risk of a breach. Policies should also provide guidance to reduce the risk of human error breaches.

(ii) Mobile Device Management (MDM)

The solution allows for password management and the ability to wipe of all data if the device is lost or stolen. Solutions exist for laptops, tablets and smart phones. MDM solutions offer the ability to wipe lost or stolen assets to protect sensitive information from falling into the wrong hands. One benefit of a clearly stated policy is a reduction of possible remote wipe disagreements.

(iii) Process and People Management

- a. Establish a security and compliance group within the company
- b. Put in place a clear set of company security policies
- c. Build role-based access to applications
- d. Create management systems for admin logins and passwords
- e. Eliminate shared logins/accounts
- f. Create and adhere to a stringent staff on boarding off boarding
- g. processes & checklists
- h. Train, train, train and train some more

(iv) Employee on-boarding recommendations

- a. Set up your accounts in Active Directory and make sure all
- b. Use unique identifiers when creating new employee accounts
- c. Maintain a distribution list to announce new hires
- d. Run a system audit when employees change departments



Summer Exam-2022

Solutions – Management Strategy

- e. Set the security expectation during the on-boarding process
- f. Initial and on-going training

(v) Employee off-boarding recommendations

- a. Maintain distribution list for terminations
- b. Direct the email account of a departing employee to his/her manager
- c. Terminate all employee accounts
- d. Review the applications saved in your employee's single sign-on portal
- e. Make sure to collect all company assets: laptops, phones, ID badges, software, etc.

Total Marks 15

Q.3. Employee recruiting is the activity of identifying and soliciting individuals, either from within or outside an organization, to fill job vacancies or staff for growth. The recruiting process can be relatively straightforward, but advances in technology, a tight labor market and a workforce pool that might span five generations can make the first step “finding potential candidates” particularly challenging. Recruitment is a key part of human resource (HR) management and supported by the hiring manager and others involved in the hiring process. Skilled recruitment efforts will make a company stand out and be more attractive to potential employees, a strategy that can directly impact a company's bottom line.

Stages of Recruitment

Step 1: Identify the hiring needs. What are your existing hiring needs?

Step 2: Prepare job descriptions

Step 3: Devise your recruitment strategy

Step 4: Screen and shortlist candidates

Step 5: Interview Process

Step 6: Make the offer

Step 7: Employee Onboarding

Step 1: Identify the hiring needs

What are your existing hiring needs? May be an employee just left or new job position just opened.

Step 2: Prepare Job descriptions

A complete job description_title of job, responsibilities, qualification

Step 3: Devise your recruitment strategy

Where you decide how to attract and retain the ideal candidate

Step 4: Screen and Shortlist Candidate

Step 5: Interview Process

Your potential candidate will come in direct contact with you.

Step 6: Make the Offer

This is the time to check with the candidate's references, if everything checks out, then make the offer.

Step 7: Employee Onboarding

Make new employee settlement and introducing them with others.

Total Marks 07



Summer Exam-2022

Solutions – Management Strategy

- Q.4. a** **Mission** statements describe the current purpose of a company. Mintzberg defines a mission as follows: 01
- ‘A mission describes the organization’s basic function in society, in terms of the productions and services it produces for its customers.’
- Mission of any entity is written in the form of a single or multiple sentences, known as a mission statement.
- Vision** statement is a statement of an organization’s overarching aspirations of what it hopes to achieve or to become. It elaborates the desired future position of any organisation and mostly described in the future tense.
- Q.4. b** A clear mission statement should have following four main elements: 02
- (i) Purpose – Why the business exists? Whether it creates wealth for shareholders?
 - (ii) Strategy and scope – The products or services it offers and boundaries of its operations.
 - (iii) Policies and standards of behaviour – The rules that guide behaviour and every day actions
 - (iv) Values and culture – Basic beliefs of people working in the organisation.
- Q.4. c** The mission and vision statements of a company help to direct the organizational strategy. 03
- Both of these statements provide purpose and goals, which are necessary elements of a strategy. By identifying these elements, the business executives can develop a more step-by-step strategy that helps the company achieve its mission in the short term, and its vision in the long term.
- Mission and Vision statements help businesses to outline performance standards and metrics based on the goals they want to achieve. They also provide employees with a specific goal to attain, promoting efficiency and productivity.
- Mission and Vision statements are not only necessary for employees and business owners when it comes to the organizational strategy. These statements are also applicable to external stakeholders like customers, partners and suppliers.
- Note:** Only three reasons are required but here more reasons are written for guidance of students.

Total Marks 06



Summer Exam-2022

Solutions – Management Strategy

- Q.5.** According to Maslow's hierarchy of needs, the situation of Mr. Freed falls in '**security need**'.
- a** An employee with this need seeks security against the risks of unemployment. As per the case Mr. freed is working in probationary period and he has been given unattainable sales targets. If he failed to perform well at this early stage his job so there is a risk that he may lose the job at the end of probationary period or earlier. His manager should assign him attainable sales targets with proper guidance and try to increase the difficulty level of those targets with the passage of time to adjust Mr. Fareed to new working environment.
- Q.5.** According to the Maslow's hierarchy of needs, the need of Mr. Kamran can be plotted under '**esteem need**'. A person with this need seeks respect and importance from others. Board of directors must give respect to him, say well come his opinions and encourage his ideas.
- Q.5.** As per Maslow's hierarchy of needs Mr. Nasir's need would be '**self-actualization need**'. A
- c** person with this need seeks to achieve something worthwhile in his life. In the above case, this need is difficult to satisfy as individual at this level in the hierarchy, needs continuing success and achievements along with challenging job.

Marking scheme:

- Identification of need for each case (1 marks per case) = 3 marks
- Justification of need and linkage to case study for each case (2 marks per case) = 6 marks
- Solution to problem for each case (2 marks per case) = 6 marks

Total Marks 05

Q.6. Primary Activities of Roots with weaknesses

According to Porter's value chain model, activities of any business can be categorized into primary activities and support activities. Primary activities may include:

- Inbound logistics
- Operations
- Outbound logistics
- Marketing
- Service

Inbound Logistics

- Roots company orders leather from long-established suppliers.
- Leather is currently procured from 11 suppliers.
- All purchase orders are placed by the procurement section.
- Orders are emailed to suppliers.
- Suppliers like to work with Roots company.

Weaknesses

- Suppliers are concerned with payment processing mechanism of Roots company.
- Payments of suppliers are delayed for long time.



Summer Exam-2022

Solutions – Management Strategy

Operations

- The shoes are produced in Roots' factory.

Weaknesses

- High inventory levels in factory
- Lack of production scheduling which leads to delay in completion of order.

Outbound Logistics

- Roots' website allows customers to select the style of shoes and type of leather with its colour.
- Various designs of shoes are displayed at website for selection by customer.
- Price selection by the customer for his/her order for customized shoes.

Weaknesses

- Late deliveries of orders
- Delay in order completion leads to frequent rescheduling of delivery dates.
- Some orders immediately rejected due to six weeks production time.

Marketing

- Shoes of Roots are advertised in famous business and family magazines.

Weakness

- There is no specific problem mentioned in the case study.

Services

- After sales services

Weakness

- Company fails to provide information about maintenance of shoes after sale.
- Return of defective shoes is very difficult.

Marking Scheme:

- | | |
|--|---------|
| ▪ Identification of primary activities for Roots | 8 marks |
| ▪ Identification of weaknesses | 7 marks |

Total Marks 15

Q.7. Big data analytics examines large amounts of data to uncover hidden patterns, correlations with data, with today's technology, it's possible to analyze your data and get answers from it almost immediately, an effort that is for slower and less efficient with more traditional business intelligence solutions.

4Vs of Bigdata

Velocity: Denotes the speed at which data is emanating and changes are occurring between the diverse data sets.



Summer Exam-2022

Solutions – Management Strategy

Volume: Around 6 million people are using the digital media and it is estimated that about 2.5 quintillion bytes of data is being generated every day.

Variety: Most of the data is unstructured in nature.

Veracity: 27% of businesses are not sure if the data they are working on is accurate.

Marking Scheme:

- Definition of big data: 2 marks
- 4 Vs: 2 marks each

Total Marks 10

- Q.8. Incremental change:** Incremental change is considered as a fairly small change which happens without major reorganization or restructuring of organisation, systems or procedures. Organisation can easily adapt itself according to incremental change. 04
- a**

Transformational change: Transformation change is considered as a very big change and requires major reorganization or restructuring of organisation, systems or procedures. It has a big impact on the entity, its employees and requires change management skills from the managers who are responsible for introducing the change. Such managers are known as change managers.

Marking Scheme:

2 marks for each definition of change 4 marks

- Q.8. According to Kurt Lewin, unfreeze, move and re-freeze theory, is a planned process for change by:** 06
- b**
- Identifying the cause of the problems, and the reasons why change is needed.
 - Identifying the opportunities and then

Unfreeze

Unfreeze is the process of persuading employees that change is necessary. In this regard, management tries to:

- Encouraging the employees to recognize what is wrong with the current system and to feel dissatisfaction.
- Discussing problems with the employees affected, and communicating their ideas
- Offering employees an attractive alternative for future i.e., possible by changing the current situation.

Movement (Change)

Movement means to introduce change successfully. In this regard:

- Management should be given sufficient resources to implement the change.
- Management should attempt in involving the affected employees in change process which helps to reduce resistance to change.

Re-freeze

Re-freeze is the process of getting employees to carry on with new system. In re-freeze stage, there is risk that employees will go back to their old ways of doing tasks and the benefits of change might be lost. One way to re-freeze is rewarding employees for results-based performance.

Marking Scheme:

2 marks for each stage of change

6 marks

Total Marks 10



Summer Exam-2022

Solutions – Management Strategy

Q.9. Production function

This function undertakes the activities necessary to produce the organisation's products or provide services. Its main responsibilities are:

- production planning and scheduling
- Supervision of the production workforce
- managing product quality (including process control and monitoring)
- maintenance of plant and equipment
- control of inventory
- deciding the best production methods and factory layout.

Research and Development (R&D) function

This function is concerned with developing new products or processes and improving existing products/processes. R&D activities must be closely coordinated with the organisation's marketing activities to ensure that the organisation is providing exactly what its customers want in the most efficient, effective and economical way.

Procurement function

This function is concerned with acquiring goods and services for use by the organisation. These will include, for example, raw materials and components for manufacturing and also production equipment. The responsibilities of this function usually extend to buying goods and services for the entire organisation (not just the production function), including, for example, office equipment, furniture, computer equipment and stationery. In buying goods and services, purchasing managers must take into account a number of factors namely, quantity, quality, price and on time delivery.

Marketing function

Marketing is concerned with identifying and satisfying customers' needs at the right price. Marketing involves researching what customers want and analysing how the organisation can satisfy these wants. Marketing activities range from the 'strategic', concerned with the choice of product markets (and how to compete in them, for example, on price or product differentiation) to the operational, arranging sales promotions (e.g., offering a 25 per cent discount), producing literature such as product catalogues and brochures, placing advertisements in the appropriate media and so on. A fundamental activity in marketing is managing the Marketing Mix consisting of the '4Ps':

- Product,
- Price,
- Promotion and
- Place

Human Resources function

This is concerned with:

- Recruitment and selection. Ensuring that the right people are recruited to the right jobs.
- Training and development. Enabling employees to carry out their responsibilities effectively and make use of their potential.
- Employee relations. Including negotiations over pay and conditions.
- Grievance procedures and disciplinary matters: Dealing with complaints from employees or from the employer.
- Health and Safety matters making sure employees work in a healthy and safe environment.
- Redundancy procedures: Administering a proper system that is seen to be fair to all concerned when deciding on redundancies and agreeing redundancy payments.



Summer Exam-2022

Solutions – Management Strategy

Accounting function

The is concerned with the following:

- Financial record keeping of transactions involving monetary inflows or outflows.
- Preparing financial statements (the income statement, balance sheet and cash flow statement) for reporting to external parties such as shareholders. The financial statements are also the starting point for calculating any tax due on business profits.
- Payroll administration: Paying wages and salaries and maintaining appropriate income tax and national insurance records.
- Preparing management accounting information and analysis to help managers to plan, control and make decisions.

Marking scheme: 2 marks for explanation of each function

Total Marks 12

Financial Reporting

(Level-4)



Summer Exam-2022 Solutions – Financial Reporting

Q.1.

Panther Group Consolidated statement of financial position As at December 31, 2021

Assets		Rs. (m)
Noncurrent assets		
Property, plant and equipment (25,250+20-4)		25,266.00
Goodwill	W – 1	516.00
Brand (250-50)		200.00
		25,982.00
Current assets		
Inventory (6,250-4)		6,246.00
Receivables (5,640-20)		5,620.00
Cash and bank balances		2,110.00
		13,976.00
		39,958.00
Equity and liabilities		
Equity		
Ordinary share capital		10,000.00
Consolidated retained earnings	W – 2	15,210.80
		25,210.80
Non-controlling	W – 3	6,727.20
		31,938.00
Current liabilities		
Trade creditors (6,950-20)		6,930.00
Contingent consideration (35+5)		40.00
Tax payable		1,050.00
		8,020.00
		39,958.00

Workings

W – 1 Goodwill

	Rs. (m) Debit	Rs. (m) Credit
Balance given	500	
Fair value gain adjustment PPE		20
Fair value adjustment inventory	5	
Contingent consideration	35	
Impairment loss on additional goodwill (20x20%)		4
c/d		516
	540	540

W – 2 Consolidated retained earnings

Balance given		15,250
Extra depreciation share (4x60%)	2.40	
Fair value loss on inventory (5x60%)		3.00
Contingent consideration	5.00	
URP on inventory (20x25/125) = (4x60%)	2.40	
Amortization on brand (50x60%)	30.00	
Impairment loss on goodwill (4x60%)	2.40	
c/d	15,210.80	
	15,250.00	15,253.00



Summer Exam-2022 Solutions – Financial Reporting

W – 3 Non-controlling interest

Balance given		6,750.00
Extra depreciation (4x40%)	1.60	
Fair value adjustment of inventory (5x40%)		2.00
URP on inventory (20x25/125) = (4x40%)	1.60	
Amortization on brand (50x40%)	20.00	
Impairment loss on goodwill (4x40%)	1.60	
c/d	<u>6,727.20</u>	
	<u>6,752.00</u>	<u>6,752.00</u>

Total Marks 20

Q.2.

	Profit for the year	Other comprehensive income	Assets	Liabilities
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Balances given	15,260	10,600	75,445	37,654
Fair value gain on investment classified at fair through other comprehensive income W – 1	5,000	2,000	7,000	--
Lease contract W – 2				
Reversal of rent	2,000	--	2,000	--
Depreciation on ROU (8,080/5)	(1,616)	--	(1,616)	--
Lease liability			6,080	6,080
Interest expense (6,080x12%)	(730)	--	--	730
Goods on sale or return basis W – 3				
Recognition of revenue	5,000		5,000	
Recognition of cost of sales	(4,500)		(4,500)	
Loan issued to be redeemed on premium W – 4	(2,000)	--	--	2,000
Adjusted balances	<u>18,414</u>	<u>12,600</u>	<u>89,409</u>	<u>46,464</u>

W – 1 – The difference in fair value and cost of investment at the date of investment will be charged to profit or loss account however, the subsequent fair value gain or loss will be recognized in other comprehensive income. Therefore the initial difference of Rs. 5 million will be charged to profit or loss account and subsequent gain of Rs. 2 million will be recognized in other comprehensive income.



Summer Exam-2022 Solutions – Financial Reporting

W – 2 – The lease will be recognized by debiting the ROU and crediting lease liability at the present value of lease payments and bank account i.e. 8,080, 6,080 and 2,000 [3.04x2,000].

W – 3 – The goods sale or return basis will be treated as sales if the entity has the past experience that the customers do not exercise the right or return of partially avail the right, then the entity will recognize revenue up to that level.

W – 4 – The loan taken are required to be measured under amortized cost model at effective rate of interest, therefore the interest on loan should have been recognized at the effective rate and difference in actual and effective rate will be credited to loan Rs. 2 million. [(100x12%)-(100x10%)]

Total Marks 20

Q.3.

	2021	2020
	(m)	(m)
Earnings (Rs.) W – 1	262.00	157.00
Number of shares W – 2	162.23	147.86
Basic EPS		Re-stated
2021 (262/162.23) (2020 157/147.86)	1.62	1.06

W – 1 Earnings	Rs. (m)	Rs. (m)
Balance	255	145
Investment property		
Reversal of depreciation	2	2
Fair value gain	5	10
Asset held for sale (No impact as fair value less cost to sell is more than the carrying value)	--	--
Intangible asset having limited life (5/5)	(1)	--
Change in accounting policy from revaluation model to cost model		
Reversal of extra depreciation 2020 nil 2021 (114/19 – 95/19)	1	--
	262	157

W – 2 Number of shares	(m)	(m)
Balance given 1-1-21/31-12-20	100	100
Bonus fraction 31-3-21 = 120/100		
Bonus fraction 30-11-21 = 115/100		
Right fraction Cum Right price / TERP = 15/14		
TERP = (120x15+30x10)/(120+30)=2,100/150=14		
Weighted average for the current year/Comparative year		
Current year (36.96+24.64+86.25+14.38)	162.23	
1-1-2021		
31-3-21		
31-5-21		
30-11-21		
31-12-21		
Comparative year (100x120/100x15/14x115/100)		147.86

Total Marks 20



Summer Exam-2022 Solutions – Financial Reporting

Q.4.

Statement of Financial Position	Rs. (000)
Assets	
Right of use asset (2,815,000 – 351,875)	2,463,125

Liabilities	
Non-current Liabilities	
Lease Liability	1,969,376
Current Liabilities	
Lease Liability	235,424

Statement of Profit or Loss Account	
Interest Expense	289,800
Depreciation Expense	351,875
Services expense (Rent and driver salary) (45,000+18,000)*9	567

Workings

W – 1 present value lease liability

Date	Cash flow	Discount factor	Present value
1	500,000	$(1.12)^{-1}=0.89$	445,000
2	500,000	$(1.12)^{-2}=0.80$	400,000
3	500,000	$(1.12)^{-3}=0.71$	355,000
4	500,000	$(1.12)^{-4}=0.64$	320,000
5	500,000	$(1.12)^{-5}=0.57$	285,000
6	375,000	$(1.12)^{-6}=0.51$	191,250
7	375,000	$(1.12)^{-7}=0.45$	168,750
8	625,000	$(1.12)^{-8}=0.40$	250,000
			2,415,000

Lease repayment schedule

Date	Opening balance	Interest	Payment	Closing balance
1	2,415,000	289,800	(500,000)	2,204,800
2	2,204,800	264,576	(500,000)	1,969,376

W – 2 Right of use asset

Cost of asset = 2,415,000 + 400,000 = 2,815,000

Depreciation for the first year = 2,815,000/8 = 351,875

Total Marks 13



Summer Exam-2022 Solutions – Financial Reporting

- Q.5.** a) The asset is held for sale from October 01, 2021 therefore it will be measured at carrying value or fair value less cost to sell whichever is lower. The carrying value at the date of classification as held sale is Rs. 13.5 (20-5-1.5) million and fair value less cost to sell is Rs. 13 million therefore an impairment loss of Rs. 0.5 million will be charged to profit or loss account. The further impairment loss of Rs. 1 million will be charged to profit or loss account on reporting date as the fair value less cost to sell has declined by Rs. 1 million.
- b) The cost of termination of Rs. 2.5 million will be charged to profit or loss account and provision of same amount will be recognized as liability. However, the cost of training and relocation will not be recognized as provision and will be ignored in the current year financial statements.
- c) The brand will be reduced to nil as the entity has decided to discontinue the use in the future. The loss of Rs. 2.1 million will be immediately charged to profit or loss account.

Total Marks 12

Q.6.

			Rs. (m)	Rs. (m)
Tax expense				
Current tax (49x29%)	W – 1			14.21
Deferred tax (3.05-0.58)		W – 2		2.47
				<u>16.68</u>

Reconciliation

Tax expense	16.68
Tax on accounting profit (47.50x29%)	<u>13.78</u>
Adjustments for:	
Tax effect of donation (10x29%)	2.90
	<u>16.68</u>

W – 1 Taxable profit

Profit before tax for the year	47.50
Add: accounting depreciation	5.00
Impairment loss	5.00
Donation	10.00
	<u>20.00</u>

Less: borrowing cost	(2.00)
Fair value gain on investment property	(5.00)
Depreciation on investment property (20/20)	(1.00)
Un-used tax loss brought forward	(10.50)
Taxable profit	<u>(18.5)</u>
	<u>49.00</u>



Summer Exam-2022 Solutions – Financial Reporting

	TTD	DTD
W – 2 Deferred tax – closing		
Accounting depreciation		5.00
Borrowing cost	2.00	
Fair value gain on investment property	6.00	
Impairment loss		5.00
	8.00	10.00
Net DTD		2.00
Deferred tax asset for the year @ 29%		0.58
W – 3 Deferred tax movement		
Opening deferred tax liability		25.40
Un-used tax losses (10.5x29%)		3.05
Un-used tax credit – adjusted against tax payable		1.50
Deferred tax for the year		(0.58)
Closing deferred tax liability		29.37

Total Marks 15

Management Accounting

(Level-4)



Summer Exam-2022

Solutions – Management Accounting

- Q.1.** The primary objective of management accounting is to enable the management to maximize profits or minimize losses.

The role of management accounting includes collecting, recording and reporting financial data from several units of an organization, observe and analyze their budget and suggest their funding and allocation. This includes estimation of cost of raw material, labor, manufacturing, sales and advertising and company's internal operation cost.

Total Marks 05

Q.2. Relevant Cost

- (a)** Relevant cost is a managerial accounting term that describes avoidable costs that are incurred only when making specific business decisions. **1.5**

The concept of relevant cost is used to eliminate unnecessary data that could complicate the decision-making process. **1.5**

(b) Sunk Cost

A cost that has already been incurred and that cannot be recovered. **1.5**

In economic decision making, sunk costs are treated as bygone and are not taken into consideration when deciding whether to continue an investment project. **1.5**

(c) Opportunity Cost

Opportunity cost is the forgone benefit that would have been derived from an option not chosen. **1.5**

To properly evaluate opportunity costs, the costs and benefits of every option available must be considered and weighed against the others. **1.5**

(d) Replacement Cost

Replacement cost is a term referring to the amount of money a business must currently spend to replace an essential asset like a real estate property, an investment security, a lien, or another item, with one of the same or higher value. **03**

(e) Differential Cost

Differential cost is the difference between the cost of two alternative decisions, or of a change in output levels. **1.5**

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. **1.5**

Total Marks 15



Summer Exam-2022

Solutions – Management Accounting

Q.3.
(a)

Production Budget (July to December 2019)								
	July	August	Sept.	Oct.	Nov.	Dec.	Total	
Estimated Sales	2,200	2,200	3,400	3,800	5,000	4,600	21,200	(01)
Add: Stock at the End	1,100	1,700	1,900	2,500	2,300	2,000	11,500	(01)
	3,300	3,900	5,300	6,300	7,300	6,600	32,700	(01)
Less: Stock at the Beginning	1,100	1,100	1,700	1,900	2,500	2,300	10,600	(02)
Production Required	2,200	2,800	3,600	4,400	4,800	4,300	22,100	(02)

07

Q.3.
(b)

Production Cost Budget (July to December 2019)								
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total	
Direct Material Rs.10	22,000	28,000	36,000	44,000	48,000	43,000	221,000	(02)
Wages Rs.4	8,800	11,200	14,400	17,600	19,200	17,200	88,400	(02)
Factory O/H Rs.2	4,400	5,600	7,200	8,800	9,600	8,600	44,200	(02)
Total Cost	35,200	44,800	57,600	70,400	76,800	68,800	353,600	(02)

08

Factory overhead per unit = Rs.88,000 / 44,000 units = Rs.2 per unit

Total Marks 15

Q.4. Planning and Budgeting is an analytical application that helps you set top-down targets and generate a bottom-up budget, which is at the foundation of your organization's operations.

It helps management evaluate business alternatives and set financial targets, and it enables the organization to work cooperatively and efficiently through the budgeting iterative process—reevaluating expenses and revenue estimates; changing start and end dates; and modifying objectives.

Total Marks 05



Summer Exam-2022

Solutions – Management Accounting

Q.5.

	Rs. in Million					
Year	1	2	3	4	5	
Revenue inflows	90.0	85.0	80.0	70.0	60.0	(01)
Costs outflows	– 50.0	46.0	40.0	36.0	40.0	(01)
Before-tax net cash flows	40.0	39.0	40.0	34.0	20.0	(01)
Depreciation	– 18.0	18.0	18.0	18.0	18.0	(01)
Income before taxes	22.0	21.0	22.0	16.0	2.0	(01)
Taxes @ 30%	– 6.6	6.3	6.6	4.8	0.6	(01)
After-tax net income	15.4	14.7	15.4	11.2	1.4	(01)
Depreciation	+ 18.0	18.0	18.0	18.0	18.0	(01)
After-tax cash flows	33.4	32.7	33.4	29.2	19.4	(01)
After-tax salvage value	+				24.0	(01)
After-tax total net cash flows	33.4	32.7	33.4	29.2	43.4	(01)
Discount rate @ 8%	× 0.926	0.857	0.794	0.735	0.681	(01)
Present value of cash flows	30.9	28.0	26.5	21.5	29.5	(01)
Total present value			136.5			(01)

After-tax salvage value included in the schedule above
 = Rs.30 million – (Rs.30 million – Rs.10 million) × 30%
 = Rs.24 million

(01)

Net Present Value

= Present Value of Cash Flows – Initial Outlay
 = Rs.136.5 million – Rs.100 million
 = Rs.36.5 million.

Since the NPV is positive, the company should go ahead with the setup of paper mill.

After-tax cash flows in Year 1

= before-tax cash flows – taxes
 = Rs.40 million – Rs.6.6 million
 = Rs.33.4 million

Total Marks 15

Q.6. Let us assume a customer has purchased goods and has been invoiced Rs.100. If the customer takes the discount, then the company will receive Rs.99 in 10 days rather than Rs.100 in 41 days. This is like the company borrowing Rs.99 from the customer for 31 days (41 – 10) and paying Rs.1 interest. Therefore, the 31-day interest rate is $1/99 \times 100\%$. This needs to be compounded up to an annual rate in the following way:

05

$$(1 + 1/99)^{(365/31)} - 1 = 0.126$$

05

Therefore, the annual cost of offering the discount can be said to be 12.6%.

05

If the discount is not offered, the company will be borrowing more on its overdraft while it waits for the customer to pay.

05



Summer Exam-2022

Solutions – Management Accounting

As the cost of borrowing on the overdraft is only 9%, the discount proposed is costlier and should not be offered.

Total Marks 20

Q.7. Profit on sale of 6,000 units is computed below:

07

a

Particulars	Rs.	Rs.	
Sales Revenue (Rs.550 x 6,000)		3,300,000	(0.5)
Less: Variable costs:			
Direct Materials (Rs.80 x 6,000)	480,000		(0.5)
Direct Labour (Rs.40 x 6,000)	240,000		(0.5)
Variable Manufacturing overhead (Rs.48 x 6,000)	288,000		(0.5)
Total Variable Cost of Goods sold	1,008,000		(0.5)
Add: Variable Selling expenses (Rs.24 x 6,000)	144,000		(0.5)
Add: Variable Administration expenses (Rs.2 x 6,000)	12,000		(0.5)
Total Variable Costs		1,164,000	(0.5)
Contribution Margin		2,136,000	(0.5)
Less: Fixed costs:			
Fixed Manufacturing overhead (Rs.72 x 6,000)	432,000		(0.5)
Fixed Selling expenses (Rs.16 x 6,000)	96,000		(0.5)
Fixed Administration expenses (Rs.18 x 6,000)	108,000		(0.5)
Total Fixed Costs		636,000	(0.5)
Net Profit		1,500,000	(0.5)

Q.7. Given that the existing capacity is sufficient to produce the extra 1,000 units required for the

06

b special order, the company only considers the variable costs of accepting the special order.

Particulars	Current cost of production per unit	Selling price per unit of special order	Profit per unit made on accepting the special order	
Direct materials	Rs.80	-	-	(0.75)
Direct labor	Rs.40	-	-	(0.75)
Var Manufacturing OH	Rs.48	-	-	(0.75)
Variable Admin Exp	Rs.2	-	-	(0.75)
Total variable costs	Rs.170	-	-	
Special offer price		Rs.275	Rs.105 (Rs.275 - Rs.170)	(1)



Summer Exam-2022

Solutions – Management Accounting

By accepting the special order, ABC makes a profit of Rs.105 per unit by covering its variable costs. Hence, it should accept the special order for maximizing short-run profits. The current profits of Rs.1, 500,000 will increase by Rs.105, 000 (Rs.105 x 1,000 units).

Q.7.
c

Particulars	Amount	
Profit per unit required on the special order (Total profits/Number of units = Rs.30,000/1,000)	Rs.30	(1)
Add: Variable cost of production per unit	Rs.170	(1)
Minimum Selling price per unit of the special order	Rs.200	(1)

ABC's minimum price to increase before tax profits by Rs.30,000 on the special-order would be Rs.200 per unit. **04**

Q.7. These include the impact that the acceptance of special orders:
d

- may have on sales to existing customers,
- the capacity to enter into new markets,
- and the customers' ability to maintain the present association in ordering and payment methods.

03

Total Marks 20

Q.8. Transfer pricing refers to the prices of goods and services that are exchanged between companies under common control. **OR** Transfer price is the price at which goods or services transferred from one division to another within the same organization.

For example, if a subsidiary company sells goods or renders services to its holding company or a sister company, the price charged is referred to as the transfer price.

Total Marks 05

Audit, Assurance & Ethics

(Level-4)



Summer Exam-2022

Solutions – Audit, Assurance & Ethics

- Q.1** The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. **03**
- (a)
- (i)

ISA 200

“OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING”, 3

- Q.1** The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. **03**
- (a)
- (ii)

ISA 200

“OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING”, 13(a)

- Q.1** Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past. **03**
- (a)
- (iii)

ISA 200

“OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING”, 13(g)

- Q.1** Management: The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner- manager. **06**
- (a)
- (iv)

ISA 200

“OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING”, 13(h)

Those Charged with Governance: The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

ISA 200

“OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING”, 13(o)



Summer Exam-2022

Solutions – Audit, Assurance & Ethics

- Q.1** The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial statements of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with law, regulation or other authority. **05**
- (b)**

ISA 200

“OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING”, A11

Total Marks 20

- Q.2** When considering whether misstatements in qualitative disclosures could be material, the auditor may identify relevant factors such as: **05**
- (a)**

- The circumstances of the entity for the period (for example, the entity may have undertaken a significant business combination during the period).
- The applicable financial reporting framework, including changes therein (for example, a new financial reporting standard may require new qualitative disclosures that are significant to the entity).
- Qualitative disclosures that are important to users of the financial statements because of the nature of an entity (for example, liquidity risk disclosures may be important to users of the financial statements for a financial institution).

(The 1st point got 1 mark while the next 2 got two marks each)

ISA 320

“MATERIALITY IN PLANNING AND PERFORMING AN AUDIT”, A2

- Q.2** Factors that may affect the identification of an appropriate benchmark include the following: **10**
- (b)**

1. The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
2. Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
3. The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates;
4. The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
5. The relative volatility of the benchmark.

(The above point each has 1 mark)

Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.



Summer Exam-2022

Solutions – Audit, Assurance & Ethics

In an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for program activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.

ISA 320

“MATERIALITY IN PLANNING AND PERFORMING AN AUDIT”, A4, A5, A10

- Q.3** Inspection involves examining records or documents, whether internal or external, in paper form, **04**
(a) electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorization.

Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition.

Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

- Q.3** Observation consists of looking at a process or procedure being performed by others, for example, **02**
(b) the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

- Q.3** An external confirmation represents audit evidence obtained by the auditor as a direct written **04**
(c) response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a “side agreement” that may influence revenue recognition.

ISA 500, “AUDIT EVIDENCE”, A14,15,16,17,18

Total Marks 10



Summer Exam-2022
Solutions – Audit, Assurance & Ethics

Q.4 In inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters: **09**

(a)

- Whether new commitments, borrowings or guarantees have been entered into.
- Whether sales or acquisitions of assets have occurred or are planned.
- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether any assets have been appropriated by government or destroyed,
- for example, by fire or flood.
- Whether there have been any developments regarding contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.
- Whether any events have occurred that are relevant to the measurement
- of estimates or provisions made in the financial statements.
- Whether any events have occurred that are relevant to the recoverability of assets.

(Any 6 points from above has 1.5 marks each)

ISA 560

SUBSEQUENT EVENTS, A9

Q.4 Date of the financial statements – The date of the end of the latest period covered by the financial statements. **02**

(b)

Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements. **04**

ISA 560

SUBSEQUENT EVENTS, 5(a), (b)

Total Marks 15



Summer Exam-2022
Solutions – Audit, Assurance & Ethics

Q.5 Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments. Factors that may affect the external auditor's evaluation include the following: **10**

(a)

- Whether the organizational status of the internal audit function, including the function's authority and accountability, supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgments. For example, whether the internal audit function reports to those charged with governance or an officer with appropriate authority, or if the function reports to management, whether it has direct access to those charged with governance.
- Whether the internal audit function is free of any conflicting responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.
- Whether those charged with governance oversee employment decisions related to the internal audit function, for example, determining the appropriate remuneration policy.
- Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance, for example, in communicating the internal audit function's findings to the external auditor.
- Whether the internal auditors are members of relevant professional bodies and their memberships obligate their compliance with relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives.

(Any 4 from the above has 2.5 marks each)

ISA 610 revised "USING THE WORK OF INTERNAL AUDITORS" A7.

Q.5 Examples of work of the internal audit function that can be used by the external auditor include the following: **06**

(b)

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of ISA 600).

(any 4 of the above has 1.5 marks each)

ISA 610 revised "USING THE WORK OF INTERNAL AUDITORS" A16.

Total Marks 16



Summer Exam-2022
Solutions – Audit, Assurance & Ethics

- Q.6** Auditor's expert is an individual or organization possessing expertise in a field other than accounting or auditing, Expertise in a field other than accounting or auditing may include expertise in relation to such matters as: **03**
- (a)**

The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.

The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.

The estimation of oil and gas reserves.

The valuation of environmental liabilities, and site clean-up costs.

The interpretation of contracts, laws and regulations.

The analysis of complex or unusual tax compliance issues.

(0.5 mark for each of the above points)

ISA 620 "USING THE WORK OF AN AUDITOR'S EXPERT" 1A.

- Q.6** An Auditor's expert is an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence, **04**
- (b)**

Whereas a management's expert is an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements?

(The definitions of Auditor's expert and management's expert have 1 marks each)

When management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:

The nature, scope and objectives of the management's expert's work.

Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.

The extent to which management can exercise control or influence over the work of the management's expert.

The management's expert's competence and capabilities. Whether the management's expert is subject to technical performance standards or other professional or industry requirements. Any controls within the entity over the management's expert's work (the examinee may narrate any 4 of the above, each one got 0.5 mark)

ISA 620 "USING THE WORK OF AN AUDITOR'S EXPERT" 6. A9

Total Marks 07



Summer Exam-2022

Solutions – Audit, Assurance & Ethics

Q.7 The objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework. **05**

Review procedures—The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data. **02**

Total Marks 07

- Q.8** Safeguards created by the profession, legislation or regulation include, but are not restricted to:
- Educational, training and experience requirements for entry into the profession.
 - Continuing professional development requirements.
 - Corporate governance regulations.
 - Professional standards.
 - Professional or regulatory monitoring and disciplinary procedures
 - External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

(Any 5 from the above have 2 marks each)

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS 100.12

Total Marks 10

Business Organization

(Level-4)



Summer Exam-2022

Solutions – Business Organization

Q.1. Stakeholders:

The persons or groups of persons who are interested in the business organization are known as stakeholders. Stakeholders read the business's financial statements and then take necessary decisions accordingly.

The system that guides and directs the operating activities of the business entity is known as corporate governance. It is defined as the practices that can be followed and provide rules that must be followed. The company's board of directors influences these activities and procedures. It includes information about the ethical behavior of the organization.

Corporate governance is essential for the stakeholders as it provides information about the ethical behavior of the business entity and the behavior that will be in the interest of all the stakeholders. Corporate governance helps the management of the business conduct it in an ethical manner which subsequently helps in the growth of the business.

Total Marks 10

Q.2. The **Board of Directors** has the vital role of overseeing the company's management and business strategies to achieve long-term value creation. Selecting a well-qualified chief executive officer (CEO) to lead the company, monitoring and evaluating the CEO's performance, and overseeing the CEO succession planning process are some of the most important functions of the board. The board delegates to the CEO—and through the CEO to other senior management—the authority and responsibility for operating the company's business. Effective directors are diligent monitors, but not managers, of business operations. They exercise vigorous and diligent oversight of a company's affairs, including key areas such as strategy and risk, but they do not manage—or micromanage—the company's business by performing or duplicating the tasks of the CEO and Senior Management team. The distinction between oversight and management is not always precise, and some situations (such as a crisis) may require greater board involvement in operational matters. In addition, in some areas (such as the relationship with the outside auditor and executive compensation), the board has a direct role instead of an oversight role.

Management, led by the CEO, is responsible for setting, managing and executing the strategies of the company, including but not limited to running the operations of the company under the oversight of the board and keeping the board informed of the status of the company's operations. Management's responsibilities include strategic planning, risk management and financial reporting. An effective management team runs the company with a focus on executing the company's strategy over a meaningful time horizon and avoids an undue emphasis on short-term metrics.

Total Marks 10

Q.3. Avoidance

Avoidance is a method for mitigating risk by not participating in activities that may incur injury, sickness, or death. Smoking cigarettes is an example of one such activity because avoiding it may lessen both health and financial risks.

Life insurance companies mitigate this risk on their end by raising premiums for smokers versus nonsmokers.

Retention

Retention is the acknowledgment and acceptance of a risk as a given.



Summer Exam-2022

Solutions – Business Organization

Sharing

Sharing risk is often implemented through employer-based benefits that allow the company to pay a portion of insurance premiums with the employee. In essence, this shares the risk with the company and all employees participating in the insurance benefits.

Transferring

The use of health insurance is an example of transferring risk because the financial risks associated with health care are transferred from the individual to the insurer. Insurance companies assume the financial risk in exchange for a fee known as a premium and a documented contract between the insurer and individual. The contract states all the stipulations and conditions that must be met and maintained for the insurer to take on the financial responsibility of covering the risk.

Total Marks 10

Q.4. Consequences of poor organizational structure.

1. Unclear roles and objectives (*conflicts and lack of coordination*).
2. Low motivation and morale.
3. Inefficient processes (*high costs*).
4. Poor quality products
5. Unsatisfied customers.
6. Poor decision making.
7. Inability to seize business opportunities.
8. Inability to adapt to changes in external environment.

Total Marks 10

Q.5. Performance management is a **corporate management tool that helps managers monitor and evaluate employees' work**. Performance management's goal is to create an environment where people can perform to the best of their abilities and produce the highest-quality work most efficiently and effectively. **03**

Q.5. The performance management process is a collaborative, communication-based process where employees and management work together to plan, monitor and review the employee's objectives, long-term goals, job trajectory and comprehensive contribution to the company. **07**

Q.5. The performance management cycle is a part of the performance management process or strategy, it is shorter and utilizes a continuous four-step procedure of **planning, monitoring, reviewing and rewarding**. **07**

Total Marks 17

Q.6. The main four types of risk are:

- Strategic Risk – e.g. a competitor coming on to the market.
- Compliance and regulatory risk – e.g. introduction of new rules or legislation.
- Financial Risk – e.g. interest rate rise on your business loan or a non-paying customer.
- Operational Risk – e.g. the breakdown or theft of key equipment.

Total Marks 08



Summer Exam-2022

Solutions – Business Organization

Q.8. Airtite- the general environment

- **Political factors**
 - EU expansion
 - Competition policy : support the competition
- **Legal factors**
 - Government legislation
 - Environment & pollution: reducing their harmful emissions to display their corporate social responsibilities
 - Taxes on aircraft emissions: pass these costs on to consumers or absorb the costs themselves
 - Governments are key stakeholders for Airtite
- **Social factors**
 - Perception of travel: threat of terrorist activity
 - New market segments
 - Demographic changes
- **Economic factors**
 - Reduced disposable incomes- reduce their leisure spending, which in return may lead them to spend less on foreign holidays
 - Switching to lower costs brands – prudent with their spending
 - Fuel costs
- **Technological factors**
 - Online bookings
 - Engine efficiency – reducing aircrafts emissions, fuel consumptions & upgrade their fleets
- **Environmental uncertainty**
 - Could be either opportunities or threats
 - Makes long-term strategic planning difficult

Total Marks 20
