



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Military Accounting Procedure
Theory & Application**

AGP | PMAD

May Exam-2026

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May Exam-2026

Solutions – Military Accounting Procedure (Theory)

Q.1. **Misclassification?**

Misclassification of Accounts occurs when financial transactions are recorded in the wrong category (assets, liabilities, equity, revenue, or expenses) leading to distorted financial statements. Common errors include treating capital expenditures as expenses, misreporting startup costs or assigning costs to wrong heads of accounts. It requires journal entry corrections or reclassification of account types.

Rectification of misclassification in accounts—a type of "error of principle" or "error of commission" where a transaction is posted to the wrong account type—is rectified by passing a **rectifying journal entry**. This entry reverses the incorrect classification and records the transaction in the correct account, ensuring the accounting equation remains balanced.

Core Principles of Rectification

Identify the Error: Pinpoint the nature of the mistake (e.g., recording an asset purchase as an expense).

Determine Correct vs. Incorrect Entry: Analyze what was recorded and what should have been recorded.

Pass Rectifying Entry: Debit the account that should have been debited and credit the account that should have been credited.

Common Misclassification Examples and Rectification

Revenue Item Treated as Capital Item (or vice versa):

Error: Wages paid for installing new machinery (Capital Expense) was debited to the Wages Account (Revenue Expense).

Rectification: **Debit Machinery A/c, Credit Wages A/c.**

Wrong Personal Account Debited/Credited:

Error: Cash paid to A was wrongly debited to B's account.

Rectification: **Debit A's A/c, Credit B's A/c.**

Incorrect Ledger Classification:

Error: Credit purchase of goods recorded in the Sales Book.

Rectification: **Debit Purchases A/c and Sales A/c, Credit Supplier's A/c.**

Rectification Stages

The method of correction depends on when the error is found:

Before Trial Balance: If the error only affects one side of an account, it is corrected by posting to the opposite side of that ledger with a descriptive note. If both sides are affected, a journal entry is used.



May Exam-2026

Solutions – Military Accounting Procedure (Theory)

After Trial Balance (Before Final Accounts): Since the Trial Balance will not show two-sided misclassifications, the error is rectified via a **Journal Proper** entry. If the error is one-sided, a **Suspense Account** is used.

After Final Accounts (Subsequent Year): If the error affects a nominal account (income/expense) that has already been closed, use the **Profit & Loss Adjustment Account** instead of the nominal account in the rectification entry.

Example of Rectification Entry

Scenario: Rs. 5,000 office supplies purchase was recorded as an expense instead of an asset.

Rectifying Entry:

Debit: Office Supplies Asset (Rs. 5000)

Credit: Office Supplies Expense (Rs. 5000)

Purpose: Increases the asset account and decreases (reverses) the expense account.

- Q.2.** A supplementary budget is a formal request for additional government funding during a financial year, used when original appropriations are insufficient or for new, unforeseen expenditures. It acts as a legal amendment, requiring legislative approval to cover emergencies, urgent development projects, or overspending in government departments.

Why Supplementary Budget is Granted:

Unforeseen Emergencies: To manage unexpected situations like natural disasters, economic crises, or health emergencies (e.g., pandemics).

Budget Insufficiency: To provide funds for specific services where the initially approved amount was insufficient.

New Services/Priorities: To finance new projects not included in the annual budget, such as accelerated development projects or political commitments.

Expense Overruns: To cover spending beyond the original budget estimates, often occurring in various departments.

Reprioritization: To reallocate funds from savings in one area to departments requiring more financial resources

- Q.3.** A Remount Depot Suspense account is a temporary holding account used within defense accounting (specifically within the Pak Army or similar defense structures) to record transactions that cannot be immediately posted to a final head of account due to missing information, errors, or pending documentation.

Transactions in this account are cleared by investigating the root cause and then posting a reversing entry to move the amount to its correct head of account, such as "Purchases," "Stock," or "Miscellaneous" heads.

Common Reasons for Remount Depot Suspense

Unidentified Expenses: Charges that cannot be allocated to a specific project or department.

Unmatched Transactions: Bank or payment transactions that do not have a corresponding invoice.



May Exam-2026

Solutions – Military Accounting Procedure (Theory)

Data Entry Errors: Typographical errors in amount or code mapping that lead to unbalanced entries.

Missing Documentation: Expenses or receipts that require further verification before being finalized.

How the Suspense Account is Cleared

The clearing process involves a "washing" of these temporary transactions to ensure the balance becomes zero.

Identify and Analyze: The transactions currently in the suspense account are identified by reviewing the ledger. This reveals the specific error (e.g., missing payee, unallocated amount).

Correction Entry (Journal Voucher): A journal entry is passed that reverses the incorrect entry (credits the suspense account if it was originally debited, or vice versa) and posts the entry to the correct final account.

Completion of Documentation: If the suspense was due to a missing bill or voucher, that documentation is processed, allowing the cost to be charged to the proper budget head.

Verification: The account is reconciled to ensure that the balance is zero, which is essential for accurate financial reporting.

Specific Clearing Actions

Payment Unallocated: Select the appropriate vendor account and expense head.

Unassigned Expense Claim: Designate a Payer or payee to remove the item from suspense.

Unbalanced Journal Entry: Correct the entry to balance the transaction

- Q.4.** Inter-departmental adjustments by Military Accounts (Defence Accounts Department) are carried out through **Exchange Accounts** by adjusting transactions with other government departments, provincial governments, or railway/postal departments using a specialized suspense head. These adjustments are handled monthly by [Controllers of Defence Accounts (CDAs)] to clear debts/credits between departments.

Key Procedures for Exchange Account Adjustments:

Monthly Adjustments: Transactions between departments are adjusted monthly, or no later than quarterly, to ensure prompt clearance.

Transfer Entry/Debit Advice: If a transaction originates in the military but pertains to another department, the CDA raises a debit through the Exchange Account to the concerned Accounts Officer.

"Final" June Adjustment: The June Final Exchange Account includes all outstanding entries, ending with a net debit or credit.

Reconciliation: Controllers are responsible for reconciling these entries with other departments (e.g., Railways, Civil Departments).

Mechanism for Transfer:

Originating Item: A CDA records a charge (e.g., payment of civil salary) and files it under the suspense head "Exchange Account".



May Exam-2026

Solutions – Military Accounting Procedure (Theory)

Debiting the Other Account: The CDA advises the concerned department (e.g., Accountant General) to accept the debit.

Response: The receiving department accepts the charge, moving it from the suspense head to their actual budget head.

Finalization: The Military Accountant General (MAG) reviews these accounts to prevent long-term outstanding balances.

The whole process is subject to strict timelines, often with a deadline of November 20th for finalizing outstanding items with civil departments to align with the fiscal year.

- Q.5.** The annual accounts of the Military Accountant General (MAG) in Pakistan are audited and certified by the Director General Defence Audit (DGDA)—a wing of the Auditor General of Pakistan (AGP)—to ensure **fiscal transparency, public accountability, and compliance with the Constitution** of Pakistan.

AUDITOR-GENERAL OF PAKISTAN

The MAG is responsible for payments and accounting for the armed forces, and this external audit by the DG Defence Audit ensures the integrity of these financial records.

Pakistan Military Account

Key reasons for this audit and certification include:

Constitutional Mandate (Article 170/171): The Constitution requires the Auditor General to audit the accounts of the federal government, including all authorities established by it, and submit reports to the President for laying before Parliament.

Independent Verification of Defense Expenditure: The DG Defense Audit provides an independent check on the "Appropriation Accounts" prepared by the MAG to ensure that public money allocated for defense is used legally and efficiently.

Ensuring Compliance with Laws: The audit assesses whether the MAG's payments, receipts, and management of resources comply with established financial rules and regulations.

Preventing Irregularities & Misappropriation: The audit examines the economy, efficiency, and effectiveness of expenditure, helping identify risks and report any discrepancies.

Accountability to Parliament: The certified audit reports are submitted to the Public Accounts Committee (PAC) to ensure legislative oversight over defense spending.

- Q.6. Key Methods for Detecting Errors with CAATs:**

Data Integrity and Validity Checks: CAATs scan for missing data, null values, invalid characters, and invalid account numbers.



May Exam-2026

Solutions – Military Accounting Procedure (Theory)

Duplicate and Missing Record Identification: Software automatically checks for duplicate transactions (e.g., payments or invoices) or gaps in sequential records like cheque numbers or invoice IDs.

Calculation Verification: CAATs recalculate mathematical totals (e.g., extensions, footings) in electronic records to identify errors in calculation that might exist in the client's system.

Anomaly Detection (Data Profiling): Techniques like Benford's Law, stratification, and trend analysis are used to identify unusual patterns, such as transactions just below authorized thresholds, excessive transactions, or unusual times of day.

Data Comparison (Matching): CAATs compare data across different files (e.g., comparing employee records in payroll against those in the HR database) to find inconsistencies.

Test Data (Simulations): Auditors submit "dummy" data with deliberate errors into the system to verify if controls successfully detect and block them.



May Exam-206
Solutions – Military Accounting Procedure (Application)

Q.1. (a) Reappropriation and Final budget for 2025-26

a

S.No	Heads of A/c	Allocation for the year 2025-26	Expenditure up Feb/2026	+ (Addition) (Surrender)	Revised budget for 2025-26
1	Pay of Officers	340,000,000	300,000,000	110,000,000	450,000,000
2	Allowances of Officers	150,000,000	120,000,000	30,000,000	180,000,000
3	Pay of Staff	250,000,000	18,000,000	-223,000,000	27,000,000
4	Allowances of Staff	100,000,000	50,000,000	-25,000,000	75,000,000
5	Adhoc Pay	50,000,000	30,000,000	-5,000,000	45,000,000
6	Purchase of Machinery & Equipment	300,000,000	200,000,000	0	300,000,000
7	Purchase of Tools & Plants	200,000,000	150,000,000	25,000,000	225,000,000
8	Utilities	50,000,000	30,000,000	-5,000,000	45,000,000
9	POL	10,000,000	7,000,000	500,000	10,500,000
10	Others	20,000,000	10,000,000	-5,000,000	15,000,000
	Total	1,470,000,000	915,000,000	-97,500,000	1,372,500,000

Q.1.
b

S.No	Heads of A/c	Revised budget for 2025-26	Increase Ratio	Budget for 2026-27
1	Pay of Officers	450,000,000	20%	540,000,000
2	Allowances of Officers	180,000,000	20%	216,000,000
3	Pay of Staff	27,000,000	20%	32,400,000
4	Allowances of Staff	75,000,000	20%	90,000,000
5	Adhoc Pay	45,000,000	20%	54,000,000
6	Purchase of Machinery & Equipment	300,000,000	15%	345,000,000
7	Purchase of Tools & Plants	225,000,000	15%	258,750,000
8	Utilities	45,000,000	15%	51,750,000
9	POL	10,500,000	15%	12,075,000
10	Others	15,000,000	15%	17,250,000
	Total	1,372,500,000		1,617,225,000

Q.2. Monthly meetings for exchange accounts are held in CMA (Controller of Military Accounts), AG (Accountant General), or AGPR (Accountant General Pakistan Revenues) offices to ensure reconciliation of federal and provincial financial transactions, reconcile expenditures, ensure data accuracy, and maintain transparency in government accounting.



May Exam-206

Solutions – Military Accounting Procedure (Application)

Accountant General Pakistan Revenues

Key reasons for holding these meetings in these specific offices include:

Reconciliation of Accounts: As per the [AGPR website](#), AGPR, AG offices, and CMA ensure that monthly expenditure and receipt figures are reconciled with bank reports. This prevents discrepancies between the records of the spending departments and the accounting office.

Centralization of Data: AG/AGPR offices function under the [Controller General of Accounts \(CGA\)](#) and are responsible for producing consolidated monthly accounts.

Budget Control: They analyze the "monthly financial reports" to ensure expenditures do not exceed allocated budgetary limits.

Addressing Discrepancies: They provide a formal venue to immediately identify and rectify issues related to payments, receipts, and inter-departmental adjustments.

These offices serve as the central hubs for financial reporting to the federal Finance Division

- Q.3.** The purpose of releasing advances for a field holder's imprest is to provide authorized personnel with a fixed, standing amount of cash to cover day-to-day, minor, or urgent field-level expenditures where traditional payment methods (like cheques or electronic transfers) are impractical.

Key purposes and advantages include:

Operational Continuity: Enables immediate cash payments for urgent, small-scale needs (e.g., local transport, quick repairs, consumable stores) to prevent project delays.

Convenience and Efficiency: Eliminates the administrative bottleneck of requiring a formal, central payment process for minor, routine expenses.

Improved Financial Control: Establishes a structured system where a specific sum is assigned, and all expenditures must be documented with vouchers for later replenishment.

Accountability: Ensures that the imprest holder is personally responsible for the safety of the cash and must be ready to produce the total amount in cash or vouchers at any time.

Budget Management: Helps track and monitor incidental expenses in the field, ensuring they remain within approved budgetary limits

- Q.4.** Corrections in accounting, known as **rectification of errors**, are carried out by identifying the mistake and applying a correcting journal entry to reverse the incorrect effect and record the transaction correctly. These adjustments are made in the general journal and then posted to the ledger, often involving a "should be" entry, "wrong" entry, and "correcting" entry analysis.

Methods of Carrying Out Corrections

Depending on when the error is found, the following methods are used:

Correcting Journal Entries (Most Common): The primary method involves making a journal entry that removes the incorrect amount from an account and moves it to the correct account.



May Exam-206

Solutions – Military Accounting Procedure (Application)

Example: If a Rs. 50 purchase was accidentally credited to Accounts Receivable instead of Accounts Payable, the correction is to Debit Accounts Receivable and Credit Accounts Payable.

Reversing and Recording: In cases of major errors, the wrong entry is reversed entirely (swapping the debit and credit), followed by posting the correct entry.

Suspense Accounts: If an error causes the trial balance to not agree (i.e., debits do not equal credits), a "Suspense Account" is opened as a temporary holding account. The error is corrected by passing an entry against this suspense account until the error is found and cleared.

Direct Ledger Adjustment: If errors are found before final accounts are prepared, single-sided errors (like miscasting a total) can be corrected by making a direct entry in the account ledger, often requiring an explanatory note.

Steps for Correction

Analyze the Entry Made: Determine what was actually recorded.

Determine the Correct Entry: Identify what should have been recorded.

Prepare the Rectifying Entry: Calculate the difference needed to fix the error.

Timing of Corrections

Before Final Accounts: Errors discovered early are corrected directly in the affected ledger accounts, often not requiring a suspense account.

After Final Accounts: If an error is found in a subsequent period, it is corrected in the current period by adjusting retained earnings or using a "profit and loss adjustment account".

Material Errors: Significant errors that misstate prior financial statements require a restatement of those financial statements.

Common Types of Errors

Error of Omission: A transaction is completely left out of the records.

Error of Commission: The wrong account of the same class is used (e.g., posting to the wrong customer's account).

Error of Principle: A transaction breaks accounting rules (e.g., treating a capital expense as a revenue expense).

Reversal of Entries: The correct accounts are used, but the debit and credit sides are switched.

Compensating Errors: Separate errors that cancel each other out, making the trial balance correct.



May Exam-206

Solutions – Military Accounting Procedure (Application)

- Q.5.** Data characteristics refer to the fundamental attributes, qualities, and specifications of information that define its usability, structure, and value. These characteristics are primarily understood through the **6 Vs framework** (Volume, Velocity, Variety, Veracity, Value, Variability) for big data, and a separate set of **data quality dimensions** (Accuracy, Completeness, Consistency, Timeliness) for operational data.

Key Characteristics of Data (The "Vs" of Big Data)

These attributes help professionals understand the scale and complexity of data to determine how it should be stored and analyzed:

Volume: The sheer amount of data generated, ranging from gigabytes to petabytes.

Velocity: The speed at which data is produced, streamed, and processed (e.g., real-time social media feeds vs. batch processing).

Variety: The diverse types of data sources and formats, including structured (tables), semi-structured (JSON, XML), and unstructured (images, videos, text) data.

Veracity: The accuracy, trustworthiness, and quality of the data, including handling noise, biases, and inconsistencies.

Value: The potential for the data to be turned into actionable insights, revenue, or business intelligence.

Variability/Variability: How frequently the structure or meaning of data changes, which often requires adaptive data processing.
