



**Pakistan Institute  
of Public Finance Accountants**

# **Model Solutions**

**Store Accounting & Contract  
Evaluation (Theory & Application)**

**AGP | PMAD**

**May Exam-2026**

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- Q.1.** A purchase indent is a formal, internal document used by departments to request the purchasing department to acquire specific goods or services. It serves as the initial step in the procurement cycle, authorizing the purchase, ensuring proper, approved, and authorized procurement, and helping to maintain inventory control.

#### **Key Details of a Purchase Indent:**

**Purpose:** It acts as a formal request to purchase materials, often ensuring that items not usually stocked by the company are acquired [6, Indent Order Definition | Law Insider].

**Information Included:** It details the items required, quantity, specifications, expected delivery date, and the requesting department.

**Approval Process:** An indent requires approval from authorized personnel (e.g., Head of Department) before it is converted into a Purchase Order (PO).

**Structure:** It can be prepared via ERP systems, in Word, or in Excel format.

#### **Benefits:**

- Reduces mismanagement and unauthorized purchases.
- Tracks material requirements from request to receipt.
- Helps manage inventory and saves working capital.

- Q.2.** Blacklisting of companies (or debarment) is an administrative action taken by a procuring entity to ban a supplier, contractor, or consultant from participating in future public procurement proceedings for a specified period. It is a punitive and protective measure imposed when a company is found to have acted with bad faith, such as engaging in corrupt practices, fraud, or serious performance failures during a contract. This mechanism is crucial for ensuring fair procurement of stores (goods and materials) by maintaining the integrity of the competitive bidding process.

#### **What is Blacklisting of Companies?**

**Definition:** A company is declared "untrustworthy" by an authority after it is established that the company was involved in corrupt practices, fraudulent, or incapable of fulfilling contract obligations.

#### **Grounds for Blacklisting:**

**Fraud/Corruption:** Submission of forged documents, bribery, or collusive bidding.

**Contract Failure:** Repeated failure to deliver goods on time, supplying sub-standard items, or abandoning projects.

**Breach of Duty:** Failure to abide by a bid-securing declaration.

**Consequences:** Blacklisted entities are prohibited from bidding on new contracts (often "cross-debarred" across all government agencies) for a duration ranging from months to several years (e.g., up to 10 years for fraud).

**Procedural Fairness:** To be legal, blacklisting generally requires a "show-cause" notice, giving the contractor a fair opportunity to be heard before being added to the list.

#### **Why Blacklisting is Essential for Fair Procurement**

Blacklisting is essential to maintain fairness, transparency, and efficiency in public procurement.



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**Ensures Honest Competition:** It removes unethical competitors from the bidding process, allowing honest firms to compete on a level playing field.

**Prevents Fraudulent Practices:** It acts as a severe deterrent against bid-rigging, falsified bid securities, or bribery, which are common in fraudulent procurement.

**Ensures Quality of Goods/Stores:** By banning contractors who previously supplied substandard goods, it ensures that the public receives the quality of stores that was paid for.

**Protects Public Funds (Value for Money):** It protects taxpayers' money by preventing repeat contracting with entities that cause losses through delayed, incomplete, or fraudulent contracts.

**Maintains Trust in the Procurement Process:** It ensures that the procurement process is efficient and reliable, as it removes "wayward" contractors, ensuring that the process remains transparent.

**Accountability:** It forces suppliers to adhere to contractual obligations, knowing that poor performance will have long-term consequences on their reputation and future business.

**Q.3**

Historically, construction projects have been procured through either the traditional 'single-stage' tender process or via the 'two-stage' approach. The main aim of the single-stage approach is to generate a firm price at the outset through a competitive tendering process, where-as the two-stage approach embraces a collaborative open book approach throughout the project.

Historically, the two-stage route has been the most popular within the construction industry, but in more recent times the single-stage process has gained in popularity – in Q4 2017, nearly 35% of projects were single-stage versus two-stage at 31%.

This shift has occurred because property teams are under increasing pressure to manage costs and need full visibility of these at an earliest stage. However, by doing this they are losing the potential development flexibility and added value that comes with the collaborative two-stage process.

There are undoubtedly pros and cons to both routes, and which one is right for you will depend on the project, the project team and the organisation's outlook on cost management and planning. We can help guide you through that decision, as our framework options all come with the help and support you need throughout the life of your project.

To give you more of an idea about which is the best option for you, here we list the risks and benefits of each:

#### **Single Stage Procurement**

##### **Benefits:**

The client benefits from a competitive tendering process which can lead to more competitive pricing.

The client can also benefit from a fixed price through this tendering process.

##### **Risks:**

The number of contractors prepared to bid for the project may be low. Historically, single-stage procurement was done through an OJEU process, which often resulted in high tendering costs to the contractors. Because of this many have shifted their focus to the more cost effective two-stage schemes over time and are no longer willing to engage in single-stage.



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The development scheme is generally designed and costed up by the contractor in isolation which can often result in the project budget being exceeded. Generally, this is because contractors may not have been consulted on the buildability at the outset meaning ever-changing building costs throughout the project.

#### Two Stage Procurement

##### Benefits:

The project doesn't have to be fully designed and costed before they can start procurement for the project, thus reducing costs.

Shorter timescales required to get a contractor appointed.

Due to the shorter timescales, the client would benefit from contractor early engagement which could result in project costs being reduced through a Value Engineering Process.

The collaborative approach breeds greater communication with the client and the clients team, which can result in improved outcomes.

##### Risks:

If the client and contractor don't communicate with each other then it would be unlikely that they would benefit from collaboration and project and cost clarity.

- As you can see there are benefits and risks for both the single and two-stage approach. At Pagabo our focus is on getting the client the optimum outcome regardless of which process they choose.
- Should the two-stage approach be preferred, we ensure our contractors provide a collaborative open book approach throughout the process. We do this by building a close relationship with the client and also the appointed contractor and acting as the linchpin between the two. This helps drive early engagement with the client's team and ensures the client's budget and program is adhered to, whilst maximizing value from the contractor.

And, whether a one-stage or two-stage approach is preferred, thanks to the level of support we enjoy from contractors we can ensure that the clients receive the appropriate number of bidders for their development scheme.

**Q.4.** Losses of stores (goods/inventory) in transit occur due to various physical, environmental, and human factors during the transportation process, often resulting from rare, unforeseen failures rather than consistent issues. These losses include physical destruction, theft, or deterioration of items while moving between locations.

Common causes for transit losses include:

**Handling Hazards & Poor Loading:** Improper securing of cargo during loading, poor quality packing, and physical handling damage can cause items to break or leak.

**Environmental & Storage Conditions:** Fluctuations in temperature, humidity, moisture stress, and condensation can spoil goods, particularly in cold chain logistics.

**Theft and Malicious Damage:** Valuable goods, such as electronics, jewelry, or metals, are highly vulnerable to theft while in transport.

**Transport Accidents:** Events beyond direct control, such as vehicle accidents, fires, floods, explosions, or natural disasters, can destroy cargo.

**Operational Failures:** Delays, incorrect routing (route deviation), and prolonged waiting times at ports or customs increase the risk of deterioration.



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**Animal Transit Issues:** In the transport of live animals, high stocking densities and poor ventilation can lead to mortality and injury.

These transit losses often stem from "gradual deviations"—such as temperature drifts or slow leaks—that go unnoticed until the goods are ultimately declared destroyed or spoiled.

- Q.5.** An indemnity bond is a legally binding three-party agreement where a surety (bonding company) guarantees to an obligee (beneficiary) that the principal (party being bonded) will perform a specific obligation, protecting the obligee against financial loss if the principal fails. It acts as a safety mechanism, often requiring the principal to reimburse the surety for any paid claims.

#### **Key Usages of Indemnity Bonds:**

**Construction:** Used as performance bonds to ensure contractors complete projects.

**Licensing:** Fidelity bonds ensuring professionals follow regulations.

**Financial/Legal:** Surety bonds for fiduciaries or guardians.

**Asset Transfer:** Used by legal heirs for the transfer of shares, debentures, or property.

**Risk Mitigation:** Legally binds parties to cover potential losses or damages arising from future events.

#### **Structure and Requirements:**

It typically involves the principal, the surety, and the beneficiary.

Often requires signature by two witnesses and two sureties.

Commonly accompanied by an affidavit verified by a notary public or magistrate.

It is important to note that indemnity bonds differ from insurance; they guarantee performance, whereas insurance protects against unexpected losses

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## Solutions – Store Accounting & Contract Evaluation (Application)

### Q.1 How to Audit Factory Capital Assets

Auditing fixed assets involves validating their existence, accuracy, valuation, and ownership.

#### 1. Planning and Preparation

**Define Scope and Objectives:** Identify high-risk areas, such as newly acquired expensive machinery.

**Update the Fixed Asset Register (FAR):** Ensure all assets are recorded with details like acquisition date, cost, location, and unique tag number.

**Gather Documentation:** Collect purchase orders, invoices, title deeds, and maintenance records.

#### 2. Physical Verification

**Tagging System:** Use barcoding, RFID, or QR tags to identify assets uniquely.

**Floor-to-Sheet (Existence):** Select assets physically on the factory floor and trace them back to the FAR to ensure they are recorded.

**Sheet-to-Floor (Completeness):** Select items from the FAR and physically locate them in the factory to ensure they exist.

**Condition Assessment:** Evaluate the physical state of machinery to determine if they are in use, damaged, or obsolete.

#### 3. Valuation and Depreciation Testing

**Cost Verification:** Vouch the capitalized cost of assets to purchase invoices, including installation and transport costs.

**Review Depreciation Calculations:** Verify that depreciation methods are applied consistently and calculations are accurate.

**Impairment Check:** Determine if any asset's carrying amount exceeds its recoverable amount (e.g., damaged machinery) and write down the value if necessary.

#### 4. Reporting and Follow-Up

**Reconcile Discrepancies:** Investigate any discrepancies between the physical count and the register.

**Final Report:** Submit an audit report documenting findings, such as "ghost assets" (records without physical items) or "unrecorded assets".

#### Audit Technologies and Tools

**Asset Management Software:** Tools like Asset Infinity or CMMS software facilitate real-time tracking.

**Barcode/RFID Scanners:** Speeds up the verification process.



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- Q.2.** Scrap sale proceeds in military accounts are generally treated as revenue receipts (miscellaneous receipts) or credited back to the relevant appropriation, depending on regulations. Net proceeds—after deducting disposal expenses—are commonly credited to current applicable appropriations. Detailed accounts are maintained by unit officers and reported to the Controller of Accounts.

#### **Key Accounting Procedures:**

**Crediting Appropriations:** Proceeds from the disposal of surplus property are often used to reduce the cost of expenses, crediting the appropriation currently available for purchasing similar property.

**Revenue Receipt:** In many government setups, proceeds are deposited into the Treasury and recognized as miscellaneous revenue.

**Recording Disposal:** The disposal is recorded by removing the asset's original cost from the books and crediting the proceeds to a "disposal account," netting the difference as a gain or loss.

**Initial Accounts:** Initial and detailed accounts of such receipts are kept by the departmental officers of the Defence Services, who then deposit the sums in lump into the Treasury.

**Approval & Audit:** All scrap sales are subject to strict audit by the Controller of Accounts (e.g.), and any write-offs must be approved by designated authorities.

#### **Typical Entries:**

**Debit:** Cash/Treasury Bank

**Credit:** Miscellaneous Revenue/Scrap Revenue Account

**Removal:** The asset is removed from the fixed asset ledger at zero value if no sale is made, or adjusted to show the proceeds,

The overall process is designed to ensure accuracy and compliance, as noted in the Pakistan Military Accounts Code on Scribd.

- Q.3** Rebidding of procurement, often referred to as a "rebid," is a strategic or mandatory process of re-evaluating, re-tendering, and contracting for goods or services when an existing contract is nearing its end or needs restructuring. Organizations rebid for several key reasons, including cost reduction, vendor performance issues, and market changes. Here is a breakdown of why organizations choose to rebid procurement:

#### **1. Driving Cost Savings and Value**

**Market Competition:** Re-tendering allows companies to test the current market to see if they can get better value for money, lower prices, or better quality from new suppliers.

**Supplier Benchmarking:** It provides an opportunity to benchmark current supplier pricing against competitors, ensuring the company is not overpaying.

**Improved Contract Terms:** Rebidding enables the negotiation of better terms, such as higher service levels, improved payment terms, or more flexible delivery options.



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#### 2. Addressing Supplier Performance Issues

**Poor Service/Quality:** If a current vendor is failing to meet performance metrics (late deliveries, poor quality, bad customer service), a rebid is necessary to find a more reliable partner.

**Lack of Innovation:** If a supplier has become stagnant and does not offer new technology, better practices, or innovation, a rebid can bring in more forward-thinking suppliers.

#### 3. Strategic and Operational Changes

**Changing Business Needs:** Company requirements often evolve. A rebid ensures that the procured goods or services align with the current strategic goals rather than outdated ones.

**Supplier Consolidation:** Organizations may rebid to reduce the number of vendors they use, aiming to consolidate spend and increase buying power with a few key partners.

**Compliance and Risk Management:** Rebidding is frequently mandated in public and private sectors to ensure compliance with procurement regulations, transparency, and to avoid unethical behavior (e.g., vendor lock-in).

#### 4. Mitigating Risks

**Supplier Financial Instability:** If a current supplier is facing financial issues, a rebid is required to secure a more stable supplier to avoid supply chain disruptions.

**Market Volatility:** In volatile markets (like post-COVID or energy shifts), rebidding helps re-evaluate sourcing strategies to mitigate risks.

#### Key Aspects of a Successful Rebid

**Rebid Readiness Review:** Successful organizations evaluate their current contract, customer needs, and team readiness before beginning the process.

**Clear Documentation:** Defining clear requirements in tender documents ensures that the new bids align with updated business needs.

While rebidding can be time-consuming, it is essential for maintaining a competitive, efficient, and cost-effective supply chain.

- Q.4.** Recovery of funds from a contractor's security deposit due to default in supply is a formal process, usually governed by the "Risk and Cost" clause in the contract. If a contractor fails to continue store supplies, the procuring agency can forfeit all or part of the security deposit, invoke bank guarantees, and recover damages.

Following is the procedure for recovery.

##### 1. Formal Default Notice

Before seizing the deposit, the procuring agency must formally declare the contractor in default.

**Notice in Writing:** Issue a registered letter or notice detailing the breach (e.g., failure to supply, delay in delivery) and specify the time allowed for rectification.



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**Final Judge:** In public procurement, the Employer (or Engineer-In-Charge) is often the sole and final judge of whether the contractor has defaulted.

#### 2. Risk and Cost Purchase (Alternative Sourcing)

If the contractor fails to resume supplies after the notice period, the agency can source the items from another supplier.

**Cost Difference Recovery:** Any extra cost incurred by the agency in purchasing the supplies from the open market, over and above the contractor's agreed rate, is recoverable.

#### 3. Recovery from Security Deposit

Once the financial damage (liquidated damages, cost difference, or penalties) is calculated, it can be recovered through several means:

**Deduction from Pending Bills:** The amount is first deducted from any intermediate or final bills submitted by the contractor.

**Forfeiture of Security Deposit:** If pending bills are insufficient, the security deposit (cash, earnest money, or banker's bond) is forfeited.

**Invocation of Performance Guarantee:** If the security is in the form of a Bank Guarantee (PBG), the agency can make a first written demand to the bank, which must be paid without reference to the contractor.

#### 4. Legal Measures and Recovery

If the security deposit is insufficient to cover the total damages, the remaining amount is considered a debt due to the Government.

**Recovery as Arrears of Land Revenue:** In many jurisdictions, any sum due to the Government by the contractor can be recovered as arrears of land revenue.

**Civil Suit/Arbitration:** The agency may initiate legal action to recover the remaining damages, including interest.

Recovery of funds from a contractor's security deposit due to default in supply is a formal process, usually governed by the "Risk and Cost" clause in the contract. If a contractor fails to continue store supplies, the procuring agency can forfeit all or part of the security deposit, invoke bank guarantees, and recover damages.

Here is the procedure for recovery, based on standard procurement regulations:

**Q.5.** Surplus material found after project completion is accounted for by returning the items to the main store and crediting the specific project's cost, as it represents a reversal of an earlier expense.

Based on the figures provided, the surplus material worth Rs. 500,000 is accounted for in the store accounts as follows:

##### 1. Accounting Entry (Journal Entry)

When the materials are returned from the project site to the main store, the following journal entry is passed:

**Debit:** Store/Inventory Account (Rs. 500,000) - *To increase the stock in hand.*

**Credit:** Project Cost/Work-in-Progress (WIP) Account (Rs. 500,000) - *To reduce the project cost as the material was not consumed.*



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#### **2. Procedure in Store Accounts**

**Material Return Note:** A formal "Material Return Note" or "Stores Return Note" is prepared, detailing the items, quantities, and their condition.

**Bin Card Update:** The storekeeper updates the Bin Card by adding the returned quantity to the balance column.

**Store Ledger:** The store ledger clerk records the receipt, updating the stock valuation<sup>4]</sup>

#### **3. Key Considerations**

**Valuation:** Surplus material is generally returned to the store at the original issue price (or current market value if the original price is unavailable and it is classified as waste).

**Condition:** If the surplus material is damaged or obsolete, it should be recorded at a reduced value (net realizable value) rather than full cost.

**Project Costing:** This adjustment ensures that the project only bears the cost of materials actually used, preventing an overstatement of project costs

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