Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate Sector

Business Laws (11.05.2017)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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

Attempt all Questions

Q.1. What is the procedure for the appointment of the Auditors? Whether the appointed Auditors are entitled to any remuneration? Elaborate. **10**

Q.2. It is a general rule contained in Section 20 that a company shall not alter the conditions contained in its memorandum except in the cases and in the mode and to the extent specified in the Ordinance. Discuss the exceptional cases and the mode and to what extent a company can alter its memorandum? **10**

Q.3. **a)** Define Alternative Dispute Resolution (ADR), and when it is preferred? **06**

b) List the 4 main ADR mechanisms. **04**

Q.4. Define the followings in your own words: **10**

- **(i)** Articles
- **(ii)** Associated Companies and Associated Undertakings
- **(iii)** Body Corporate
- **(iv)** Company Limited by Shares
- **(v)** Company Limited by Guarantee

Q.5. As per Companies Ordinance 1984, issuance of a notice to all members of a company shall be mandatory for the purposes of conducting its Annual General Meeting. Zaid, one of the members of ABC Co., observed that only one meeting was conducted in last two years and even for that meeting, no notice was issued to its members.

a) What is the requirement, of holding General Meetings by the Company under Companies Ordinance 1984? **05**

b) What would you advise Zaid to do under these circumstances? **05**

Q.6. Ali offered Zaid to sell his car against a sum of Rs. 800,000. The offer was made through a letter but before its acceptance by Zaid, Ali revoked his offer and the letter of revocation was posted to Zaid. Discuss the rights and liabilities of Ali and Zaid. **10**

Q.7. What are the rights of Indemnity Holder? **10**

Q.8. **a)** Hira, Amna and Iqra are the partners in ABC firm. Iqra acting in the ordinary course of business contracted with Ali on the behalf of the firm but did not perform her part of performance properly, due to which firm sustained damages. Who is responsible for this wrongful act? **10**

Contd. on back

b) Define Partnership at Will. **05**

Q.9. a) Aslam agrees to sell Jamal a specific cargo of goods supposed to be on its way from England to Karachi. It turned out that before the day of the bargain, the ship conveying the cargo had been cast away and the goods are lost. Neither party was aware of the facts. Discuss the nature of the contract between Aslam and Ajmal? **10**

b) When a person is said to be insolvent? **05**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Business Economics (09.05.2017)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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

Q.1. What are the fundamental problems of an economy? How could these problems be resolved under free market economy? **10**

Q.2. **a)** Describe the concept of Income Elasticity of Demand. What do the positive and the negative income elasticity of demand indicate? **04**

b) 'GK' economy has experienced exceptional growth in recent years. Its GDP per capita has increased from $30,000 to $50,000 in last 5 years. Over the period, quantity of personal cars demanded has been increased from 450,000 units per year to 600,000 units. Calculate income elasticity of demand for personal cars. **06**

Q.3. **a)** Define Indifference Curve and explain why does it slope downwards? **04**

b) Explain the limitations of the Law of Equi Marginal Utility. **06**

Q.4. **a)** Define Price Discrimination and give two practical examples of Price Discrimination. **03**

b) Briefly explain conditions of Price Discrimination. **05**

Q.5. **a)** Explain the product or value added method to measure national income. **08**

b) What is meant by double counting? Why do we avoid double counting while measuring national income? **03**

Q.6. **a)** Define Average Propensity to Consume (APC) and Marginal Propensity to Consume (MPC). **03**

b) The income and consumption level of Pak Land is given below. Calculate Saving, Average Propensity to Consume (APC), Marginal Propensity to Consume (MPC), Average Propensity to Save (APS) and Marginal Propensity to Save (MPS) at each level of income. **08**

Income Level (Rs. millions)	Consumption	Saving	APC	MPC	APS	MPS
0	100					
100	150					
200	200					
300	250					
400	300					
500	350					

Contd. on back

Q.7.	**a)**	Define Unemployment.	**02**
	b)	Pakistan is facing mass unemployment. Suggest some measures to reduce unemployment to the decision makers of Pakistan.	**08**
Q.8.	**a)**	Define Expansionary and Contractionary Monetary Policy.	**04**
	b)	Explain the objectives of Monetary Policy.	**06**
Q.9.	Explain the functions of Money. How does inflation affect the functions of Money?		**10**
Q.10.	Define the following Economic Terms:		
	i)	Money market	**02**
	ii)	Monopoly	**02**
	iii)	Demand Pull Inflation	**02**
	iv)	Fiat Money	**02**
	v)	Foreign Exchange Rate	**02**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Cost Accounting (10.05.2017)

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

Additional time – 15 min for Paper Reading

[Instructions]

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

Attempt all Questions

Q.1. **(a)** Define Economic Order Quantity and briefly discuss its uses and benefits. **10**

(b) ABC Limited has been buying a part 'Z' used in the product XYZ in lots of 4,000 units which is a monthly requirement. The cost per unit of 'Z' is Rs. 120, ordering cost is Rs. 1,000 per order and carrying cost is 20% per annum.

Required:

Calculate the Economic Order Quantity. **10**

Q.2. **(a)** Briefly explain what is idle time and how it should be treated in cost accounts? **05**

(b) In a textile mill, a worker is paid @ Rs. 2,000 per month in addition to dearness allowance of Rs. 500 per month. He is entitled to bonus @ 10% of wages. Employer's contributions toward contributory provident fund is 8.33% of wages, 7% toward Employee's Social Security Institution and 5% toward Employee's Old-Age Benefit Institution. The workers also contribute towards contributory provident fund @ 8.33% of wages. They avail leave on full pay for 5% of days worked. The employer maintains the canteen where the subsidized tea and lunch are provided to workers and month subsidy of Rs. 17,000 is provided to the canteen. The total number of workers who take advantage of this canteen is 200 per month. Normal idle time amounts to 20%. The average working days in a month are 25 of 8 hours each.

Required:

Find out the following:

(i) Total expenses for the month per worker **09**

(ii) Number of effective hours in a month **04**

(iii) Labour Cost per hour **02**

Q.3. A company has two production departments, **A** and **B** as well as two service departments, **X** and **Y**. The service departments, in addition to the production departments, serve each other. The relationship between the four departments can be expressed as under:

Department	Departmental overheads before distribution of service department cost (Rs.)	Services provided by Departments	
		X	Y
A	120,000	30%	20%
B	145,000	30%	60%
X	48,000	-	20%
Y	36,000	40%	-

Required:

Compute the following:

- **(i)** The final amount of estimated overheads of each Service Department after reciprocal transfer costs have been calculated algebraically. **15**
- **(ii)** The total overheads of each producing department after transfer of Service Department costs. **05**

Q.4. In Division **B**, two products (**M** and **N**) are manufactured from the same process, incurring joint processing costs of Rs. 428,760 in the period.

The following additional information is available for the period:

	Product M	Product N
Outputs (kgs)	45,060	15,900
Further processing costs (per kg)	Rs. 1.65	Rs. 3.00
Selling price (per kg)	Rs. 12.00	Rs. 15.00

Required:

Calculate the gross profit/loss on Product **M** for the period: **20**

- **(i)** If joint processing costs are allocated on the basis of net realizable value.
- **(ii)** If joint processing costs are allocated on the basis of physical quantities.

Q.5. At the beginning of 2015 M/s Bashir Limited adopted the following standards.

Descriptions	Input	Total (Rs.)
Direct Material	3 Kg @ Rs. 32.50 per kg.	97.50
Direct Labour	5 hrs. @ Rs. 17.50 per hr.	87.50
Factory Overhead:		
Variable	Rs. 7.50 per direct labour hour	37.50
Fixed	Rs. 9.00 per direct labour hour	45.00
		267.50

Normal volume per month is 47,000 standard labour hours. Company's July 2015 budget was based on normal volume. During July, 2015 Company produced 9,200 units with record indicating the following:

Direct Material purchased	29,487 Kgs. @ Rs. 32.60 per Kg
Direct material used	27,246 Kgs
Direct labour	47,300 hrs @ Rs. 17.0 per hr
Factory overhead	Rs. 791,000

Required:

- **(a)** Prepare a schedule of Budgeted production costs for July, 2015 based on actual production of 9,200 units. **04**
- **(b)** Compute the following variances, for July 2015 indicating whether each is Favourable or Unfavorable.
  - **(i)** Direct Material Price Variance, based on purchases. **04**
  - **(ii)** Direct Material Usage Variances **04**
  - **(iii)** Direct Labour Rate Variances **04**
  - **(iv)** Direct Labour Efficiency Variances **04**

Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate Sector

Financial Accounting (11.05.2017)

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

Additional time – 15 min for Paper Reading

[Instructions]

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

Q.1. Following is the Trial Balance of S. B. Graphics (Private) Limited as on June 30, 2016:

Particulars	Debit	Credit
Share Capital	-	21,000,000
Share Premium	-	5,000,000
Sales	-	134,840,000
Allowance for Doubtful Debts	-	620,000
Accounts Payable	-	15,490,000
6% Long Term Loan	-	30,000,000
Retained Earnings	-	16,570,000
Accrued Expenses	-	1,250,000
Opening stock	20,730,000	-
Purchase	99,540,000	-
Trade Debtors	20,200,000	-
Financial Charges	900,000	-
Prepayments	618,000	-
Interim Dividend Paid	4,500,000	-
Final Dividend Paid	3,000,000	-
Sales Return	456,000	-
Distribution Cost	12,800,000	-
Cash and Bank Balance	1,930,000	-
Administrative Expenses	7,610,000	-
Land - Cost	35,900,000	-
Building - Cost	12,800,000	-
Fixtures and Fittings - Cost	6,950,000	-
Motor Vehicle - Cost	17,320,000	-
Office Equipments - Cost	5,970,000	-
Purchase Return	-	714,000
Accumulated Depreciation - Buildings	-	9,020,000
Accumulated Depreciation - Fixtures and Fittings	-	4,370,000
Accumulated Depreciation - Motor Vehicle	-	10,030,000
Accumulated Depreciation - Office Equipments	-	2,320,000
	251,224,000	**251,224,000**

Contd. on back

Other Information:

- Closing Stock is Rs. 13,870,000
- The land has been revalued upwards by professional valuer by Rs. 3,200,000. The revaluation is to be included in the financial statement for the year ended June 30, 2016.
- The corporate tax charge for the year has been calculated at Rs. 5,190,000.
- Goods sold to a customer on credit for Rs. 121,000 in May 2016 which originally cost Rs. 72,000 were returned to the company on June 29, 2016. No entries have been made in the accounts to reflect this return of goods.
- The company ran a 4 months advertising campaign starting on June 01, 2016, it cost Rs. 76,000.
- Financial Charges for Six months of the year only has not been included in the accounts.

Required:

Prepare the following Financial Statements in accordance with International Financial Reporting Standards / IAS-1 for June 30, 2016. **16**

(i) Statement of Profit or Loss

(ii) Statement of Financial Position

Q.2. (a) A company's accounting policy is to value stock at lower of cost and net realizable value, 40% Sales are on Credit. Selling Expenses are 10% of Sales Value and Collection Charges are 1% of Debtors:

Item	Cost (Rs).	Sales Value (Rs).
A	80,000	120,000
B	98,000	101,000
C	50,000	40,000
D	89,000	73,000
E	94,000	108,000
F	180,000	205,000
G	194,000	210,000

Required:

Determine the value of stocks as on June 30, 2015. **07**

(b) M. S. Sons Limited on April 01, 2014 carries its office block in its Financial Statement at its original cost of Rs. 2,000,000 less accumulated depreciation of Rs. 400,000 (based on its original life of 50 years). M. S. Sons Limited decided to revalue the office block on October 01, 2014 to its current value at Rs. 2,200,000. The useful economic life remaining was also reassessed at the time of valuation and it considered to be 40 years at this date. It is the company policy to charge depreciation proportionally.

Required:

How will the office block be accounted to in the year ended March 31, 2015, in the books of accounts of M. S. Sons Limited? **07**

Q.3. Green Acres (Private) Limited with its Head Office at Karachi has a branch at Lahore. You are given the following particulars relating to the Lahore Branch for the year ending December 31st, 2015;

Particulars	Rs.
Goods sent to Branch	45,600
Stock at Branch on January 01, 2015	15,700

Contd…..

Credit Sales during the year	53,600
Cash Sales during the year	19,700
Cash Received from Debtors	52,200
Branch Debtors as on January 01, 2015	16,900
Petty Cash at Branch January 01, 2015	110
Goods Returned by Branch	3,900
Cash Sent to Branch for Salary	12,800
Cash Sent to Branch for Petty Cash	2,600
Cash Sent to Branch for Rent	3,000
Stock at Branch on December 31, 2015	18,800
Petty Cash at Branch December 31, 2015	90

Required:

(a) Lahore Branch Memorandum Trading and Profit and Loss Account. **05**

(b) Lahore Branch Debtors Account. **02**

Q.4. The comparative Balance Sheet of Ali Brothers (Private) Limited shows the following Information:

	2016	2015
Equity and Liabilities	**Rs.**	**Rs.**
Paid-up Capital (Ordinary Shares of Rs. 10/= each)	1,250,000	1,000,000
Capital Reserves	10,000	-
Profit and Loss Account	480,000	400,000
Long Term Bank Loan	400,000	500,000
Current Liabilities	400,000	500,000
Provision for Taxation	60,000	50,000
Total Equity and Liabilities	**2,600,000**	**2,450,000**
Assets		
Land and Building	380,000	400,000
Machinery	920,000	750,000
Investments	50,000	100,000
Inventories	280,000	300,000
Trade Receivables	420,000	400,000
Cash in Hand	140,000	200,000
Cash at Bank	410,000	300,000
Total Assets	**2,600,000**	**2,450,000**

Additional data related to 2016 is as follows:-

- Depreciation written off on Building - Rs. 20,000.
- The Company sold some investment at a profit of Rs. 10,000, which is credited to Capital Reserve.
- Income Tax provided during the year Rs. 55,000.
- Machinery Purchased during the year for Rs. 225,000. The Company paid Rs. 125,000 in Cash and issued 10,000 Ordinary Shares of Rs. 10/= each at par .

Contd. on back

Required:

Prepare Statement of Cash Flows for the Year 2016 using Indirect Method in accordance with IAS-7. **10**

Q.5. **A** and **B** are partners in a firm sharing profits and losses in the ratio of 7:3. The Balance Sheet of the firm as on March 31st, 2017 was as under:

	Rs.
Equity And Liabilities	
Sundry Creditors	32,000
Bills Payable	38,000
Reserves	18,000
Capital Account - A	88,000
Capital Account - B	64,000
	240,000
Assets	
Stock in Trade	35,000
Sundry Debtors	45,000
Investment	13,000
Bills Receivable	30,000
Goodwill	20,000
Machinery	40,000
Building	45,000
Cash and Bank Balance	12,000
	240,000

Due to expansion in the business, C was admitted as a Partner on the following terms:

- Stock is revalued at Rs. 40,000.
- Building, Machinery and Investment are depreciated by 12%.
- Prepaid Insurance is Rs. 1,000.
- **C** brings Rs. 40,000 as his Capital and Rs. 12,000 for Goodwill for 1/6 share of Profit of the firm.
- Capital of the partners shall be proportionate to their profit sharing ratio. Adjustment of capital to be made by cash and bank.

Required:

Prepare the Revaluation Account and Partners Capital Account of the new firm after admission of **C** as Partner. **10**

Q.6. **(a)** Junaid, Gazanfar and Ahmed are in partnership but have no written partnership agreement. The partners wish to expand the partnership, and require additional funds. Their capital accounts at 1st May 2005 were as follows.

- Junaid Rs. 60,000, Gazanfar Rs. 45,000, Ahmed Rs. 45,000.
- Under the existing circumstances, profit of Rs. 67,500 is anticipated for the year ended 30th April 2006. They are considering adding a partner. The selected option would take effect from 1st May 2005.

Contd…….

- Rehman will come in as a partner. He would take on the role of manager and would provide Rs.75,000 of capital. Rehman would join the partnership, provided an agreement was drawn up requiring interest on capital to be paid at 7.5% per annum. Remaining profits would be split in the ratio 3:3:2:2, with Junaid and Rehman receiving the larger shares. Goodwill would be ignored and net profit would increase by Rs. 27,000.

Required:

For the year ending 30th April 2006, calculate the amount to be received by each partner. **05**

(b) **B Co**. acquired a fixed asset on 1st January 2002 for Rs.80,000. It had no residual value and a useful life of 10 years. On 1st January 2005 the total useful life was reviewed and revised to 7 years.

Required:

What will be the depreciation charge for 2005? **05**

(c) Nazar is trying to value his inventory. He has the following information available:

	Rs.
Selling price	35
Costs incurred to date	20
Cost of work to complete item	12
Selling costs per item	1

Required:

What is the net realizable value of Nazar's inventory? **06**

Q.7. A business purchased two rivet-making machines on 1st January 2005 at a cost of Rs.15,000 each. Each had an estimated life of five years and a nil residual value. The straight-line method of depreciation is used.

Owing to an unforeseen slump in market demand for rivets, the business decided to reduce its output of rivets, and switch to making other products instead. On 31st March 2007, one rivet-making machine was sold (on credit) to a buyer for Rs. 8,000. Later in the year, however, it was decided to abandon production of rivets altogether, and the second machine was sold on 1st December 2007 for Rs. 2,500 cash.

Required:

(a) Determine the balance of machinery account for the accounting year to 31st December 2007. **03**

(b) Determine the balance of provision for depreciation of machinery account for the accounting year to 31st December 2007. **07**

Q.8. Bilal Co. has an item of land carried in its books at Rs. 13,000. Two years ago a slump in land values led the company to reduce the carrying value from Rs.15,000. This was taken as an expense in the Income Statement. There has been a surge in land prices in the current year, however, and the land is now worth Rs.20,000.

Required:

Show the revaluation entries for the current year. **05**

Contd on back…….

Q.9. The accountant of Farid Co., a limited liability company, has begun preparing final accounts but the work is not yet complete. At this stage the items included in the list of account balances are as follows:

	Rs. 000
Land	100
Buildings	120
Plant and machinery	170
Depreciation provision	120
Ordinary shares of Rs.1	100
Retained earnings brought forward	380
Trade accounts receivable	200
Trade accounts payable	110
Inventory	190
Profit before tax	80
Allowance for receivables	3
Bank balance (asset)	12
Suspense	1

Notes below are to be taken into account:

(i) The accounts receivable control account figure, which is used in the list of account balances, does not agree with the total of the sales ledger. A contra of Rs.5,000 has been entered correctly in the individual ledger accounts but has been entered on the wrong side of both control accounts. A batch total of sales of Rs. 12,345 had been entered in the double entry system as Rs. 13,345, although the individual ledger accounts entries for these sales were correct. The balance of Rs. 4,000 on the sales returns account has inadvertently been omitted from the trial balance though correctly entered in the ledger records.

(ii) A standing order of receipt from a regular customer for Rs. 2,000, and bank charges of Rs. 1,000, has been completely omitted from the records.

(iii) A receivable for Rs. 1,000 is to be written off. The allowance for receivables balance is to be adjusted to 1% of receivables.

(iv) The opening inventory figure had been overstated by Rs. 1,000 and the closing inventory figure had been understated by Rs. 2,000.

(v) Any remaining balance on the suspense account should be treated as purchases if a debit balance and as sales if a credit balances.

Required:

(a) Determine the figure to be recorded for the year-end trade accounts receivable. **07**

(b) Determine the figure to be recorded for the year-end profit before tax. **05**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Bus. Com. & Report Writing (12.05.2017)

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

Additional time – 15 min for Paper Reading

[Instructions]

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

Q.1. Explain following axioms of Communication in your own words? **09**

- **(i)** Inevitability of Communication
- **(ii)** Digital and Analogic
- **(iii)** Symmetric or complementary

Q.2. Explain the situations when choosing following communication medium is most appropriate? **06**

- **(i)** Memoranda
- **(ii)** Video conference
- **(iii)** Face-to-face

Q.3. Why do we exchange messages in Business Communication? **06**

Q.4. **a)** Remove "**Insensitivity**" from the following statements: **09**

- **(i)** You failed to enclose your check in the envelope
- **(ii)** Your contract tells you plainly that
- **(iii)** You are completely off base in your proposal

b) Make following statements "**Positive and Pleasant**"

- **(i)** It is impossible to open an account for you today.
- **(ii)** We don't refund if the returned item is soiled and unsalable.
- **(iii)** When you travel on company expense you will not receive approval for first class fare.

c) Convert the following into "**Clear**" statements

- **(i)** Being an excellent lawyer, I am sure you can help us.
- **(ii)** His report was about managers, broken down by age and gender.
- **(iii)** After planting 10,000 berry plants, the deer came into our botanist's farm and crushed them.

Q.5. What are the techniques to develop Emphatic Listening? **09**

Contd. on back

Q.6. Your organization deals in supply and installation of security cameras. Write a sales letter to prospective organizations for rendering your services. Assume necessary details. **15**

Q.7. (a) Give examples of situations when non-verbal communication can be used to give a message effectively? **05**

(b) How does following impact in non-verbal communication? **06**

- **(i)** Personal space
- **(ii)** Movement & Stillness
- **(iii)** Silence and Sound
- **(iv)** Proximity and contact

Q.8. Prepare a "Cover Letter" that you have to send with your C.V. Assume necessary details. **10**

Q.9. What are the advices / etiquettes of using emails? **05**

Q.10. Components of a business plan also include "Executive Summary". Write only an Executive Summary of a report that is written by you on "tied up Cash flows" in increasing receivables of the Company. You must assume necessary details. **10**

Q.11. Your organization specializes in town planning. Submit a proposal for improving town planning in Karachi. You must assume necessary details. **10**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate Sector

Taxation (08.05.2017)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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Attempt all Questions

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

(i) Assessment **02**

(ii) Collective Investment Scheme **02**

(iii) Electronic Record **02**

(iv) Fast Moving Consumer Goods **02**

Q.2. Define the following in view of the Sales Tax Act, 1990.

(i) Associates (Associated Persons) **02**

(ii) Sales Tax **02**

(iii) Retail Price **02**

Q.3. A manufacturing company which is registered under Sales Tax Act, 1990 has the following transactions during a Tax Period for the month of June 2016:

	Rs.
Purchases from registered manufacturers	2,000,000
Purchases from registered retailers	500,000
Purchases from non-registered persons	500,000
Imports	1,500,000
Supplies to registered persons	1,500,000
Supplies to non-registered persons	500,000
Exports	4,000,000

Required:

Compute the Tax Liability of the Company. **15**

Q.4. Explain provisions of Section 17 regarding Records of the Federal Excise Act, 2005. **10**

Q.5. Explain the provisions of Section 147 of the Income Tax Ordinance, 2001. **15**

Q.6. Explain Section 236A of the Income Tax Ordinance, 2001. **08**

Q.7. Explain Section 183 of the Income Tax Ordinance, 2001. **08**

Contd. on back

Q.8. ABC & Company is a partnership firm. For the tax year ended on 30th June, 2016 the firm declared a net profit of Rs. 400,000. The scrutiny of the Profit and Loss Account revealed the following deductions were also made while preparing the Financial Statements :

	Rs.
Income tax for previous year	30,000
Tax at source deducted by the customer	15,000
Salary paid to an employee without deduction of Tax	200,000
Salary paid to Partner A	60,000
Interest paid to Partner B	5,000
Salary per month paid in cash to an employee – (Tax at source was deducted)	20,000
Contribution to unrecognized provident fund	30,000
Donation to un-approved Institutions	10,000
Donation to approved Institutions	20,000
Manager of the firm was paid the following amounts:	
(i) Salary	80,000
(ii) Perquisites and allowances	50,000
Accounting depreciation	55,000

Required:

Compute the Taxable Income of the firm considering that the depreciation under the Income Tax Ordinance comes to Rs. 45,000. **15**

Q.9. Mr. Khan, a retired Civil Servant has joined a listed company during the year and provides you the following information relevant to the tax year 2017 related to the income year ended June 30, 2017:

a) Payroll	**Rs.**
• Monthly payroll	22,000
• Bonus (to the extent of 20% of annual payroll)	-
• House rent allowance receivable in cash with monthly payroll	10,000
• The company maintained 1000 c.c. car valuing Rs. 500,000 for personal and home use, on which total expenditure incurred by the company	40,800

b) Other payments made by company on vouchers	**Rs.**
• Residential electricity	20,000
• Petrol for residential generator	5,000
• Gas bills of residence	6,000
• Telephone bills of residence including withholding tax of Rs. 100	13,885
• Club bills	4,000
• Internet usage reimbursement	9,000

c) Mr. Khan also received the following sums	**Rs.**
• Pension from Government	80,000
• Dividends from investment in WAPDA Bonds (net of tax and zakat)	70,000

Required:

Compute total income of Mr. Khan for tax year 2017. **15**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate Sector

Financial Reporting (08.05.2017)

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

Additional time – 15 min for Paper Reading

[Instructions]

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

Attempt all Questions

Q.1. The entity has hired an office on lease for 5 years and incurred leasehold improvement expenses of Rs. 150,000. The entity is under obligation to restore the building to its original condition at the end of lease term. The estimated cost of restoration is Rs. 40,000 after five years. The discount rate entity uses for present value calculation is 12% per annum.

Required:

Prepare extract to Financial Statements for the first year. **10**

Q.2. The entity entered into a contract with other entity to do research on its behalf. The total cost incurred was Rs. 1.2 million and the entity was allowed to charge markup of 25% above cost while billing to the other entity. Before the bill being raised a news published in the local newspaper that its customer has went bankrupt and has applied for liquidation. The liquidator confirmed that nothing is recoverable from him.

Required:

Propose double entry to be recorded by entity. **05**

Q.3. The entity has been incurring cost for last three years on the development of a product. The total cost incurred on the development in last three years was Rs. 5 million but has been expensed out because it was not satisfying the recognition criteria under IAS 38. Now it has satisfied the recognition criteria under IAS 38 and cost incurred after the satisfaction of criteria is Rs. 2 million. The entity wants to recognize the total cost incurred as cost of the intangible asset.

Required:

Comment on the Management's intention on recognizing the cost of the asset. **05**

Q.4. An entity has un-used tax losses of Rs. 2.55 million and net taxable temporary differences of Rs. 4.65 million at the start of the current year. The following is the information for calculation of current tax and deferred tax for the current year.

	Rs. (000)
Accounting profit before tax	6,256
Accounting depreciation for the year	526
Tax depreciation for the year	836
Provision for doubtful debts for the year	150
Bad debts written off during the year	25
Donation to unapproved institutions	60

The tax rate applicable in the current year is 32% and on next year is 31%.

Contd. on back

Required:
Prepare note of tax expense and reconciliation of tax on Accounting Profit and Tax Expense. **10**

Q.5. The following is the Statement of Comprehensive Income of Parent Company and its subsidiary at the yearend December 31st, 2016.

	Parent Co.	Subsidiary Co.
Profit or loss account	**Rs. (000)**	**Rs. (000)**
Revenue	100,550	50,255
Cost of revenue	(80,650)	(23,655)
Gross profit	19,900	26,600
Administrative expenses	(3,556)	(2,450)
Selling and distribution expenses	(2,664)	(8,630)
	(6,220)	(11,080)
Operating profit	13,680	15,520
Other income	8,660	--
Finance cost	(255)	(2,500)
Profit before tax	22,085	13,020
Tax expense	(6,250)	(1,220)
Profit after tax	15,835	11,800
Other comprehensive income		
Items that may not be reclassified to profit or loss account		
Revaluation surplus	2,000	250
Gain of investments classified at fair value through profit or loss account	1,520	(550)
Total other comprehensive income	3,520	(300)
Total comprehensive income	19,355	11,500

The following further information is also relevant.

- Parent Company (**P Co.**) acquired 60% shareholding in Subsidiary Company (**S Co.**) several years ago and recognized goodwill of Rs. 10.5 million. Goodwill amounting to Rs. 5 million was impaired in the previous years and Rs. 1.2 million impaired in the current year. The **P Co.** has the accounting policy of measuring non-controlling interest at fair value.
- The fair value gain at the date of acquisition has resulted in extra depreciation of Rs. 0.5 million per year. The fair value gain at the date of acquisition has been incorporated by **S Co.** after the date of acquisition in its separate books.
- The other income of **P Co.** includes dividend and interest income of **S Co. P Co.** has subscribed 70% of loan instruments of **S Co.** The **S Co.** has declared interim dividend of Rs. 6 million during the year.
- **P Co.** sold fixed assets at gain of Rs. 2 million to **S Co.** two years ago. The remaining useful life of assets at the date of disposal was 4 years.
- During the year **S Co.** sold goods costing Rs. 6.5 million at markup of 25% to **P Co.** Goods having sale price of Rs. 1.2 million remained un-sold at the year end.
- **P Co.** during the year charged management fee of Rs. 1.25 million by crediting the administrative expenses and debiting the **S Co.** The **S Co.** has not recorded this transaction in its books of accounts.

Contd.….

Required:

Prepare Consolidated Statement of Comprehensive Income. **23**

Q.6. A lessee has entered into lease of an office building in a skyscraper. The terms of the lease were as under: -

- The non-cancellable lease term is 5 years, however, the lessee can extend the lease for another three years for same rental. At the inception date of lease the lessee forecasted that there is a remote chance that it will opt for extension of lease.
- The commencement date of lease is 01-01-2015, rental was in advance and office will revert back to lessor at the end of the lease term.
- The amount of rental per month will be Rs. 100,000.
- The commission paid to real estate agent was 50% of first month rental.
- The lessor compensated the lessee for cost incurred on leasehold improvements by transferring Rs. 30,000 into its bank account.
- The interest rate implicit in the lease is not available to lessee, however, the lessee's incremental borrowing rate is 12% pa.
- After two years on December 31, 2016, the lessee re-assessed the lease term and concluded that now it is reasonably certain that it will avail the optional leas period as well because of change in its original business plans.
- The prevailing market interest rate on December 31, 2016 is 11% pa.
- The lease is not immaterial for the lessee, lessee charges depreciation on right to use on straight line basis.

Required:

Pass necessary double entries for the first three years of lease. **20**

Q.7. An entity has come across the following transactions at the time of finalization of its Financial Statement for the year ended June 30, 2016:

(a) The Directors of a company has finalized restructuring plan before the yearend for closing down one of its division but plan was announced after the year end, the restructuring will cost Rs. 500,000. **04**

(b) The company has completed the installation of one of its plant on December 31, 2015 on rented land for total cost of Rs. 250,000. Under the contract the company is under obligation to dismantle and restore the site. The estimated cost of dismantling and site restoration is Rs. 35,000 after four year lease term. The company uses 12% discount rate for all its present value calculations. The company has charged depreciation on plant at cost of Rs. 250,000. The asset is being depreciated under straight line basis. **04**

(c) The company has two warehouses (A and B) for storage of its finished goods, which have remaining non-cancellable operating lease term of three years. The company has hired one warehouse which is near to its production facility and spacious as much as the two already under lease. The company has decided to sublet the two ware houses as detailed below: **04**

	Current lease payment (Rs.)	Rental from sub-lease (Rs.)
Lease A	250,000	270,000
Lease B	150,000	125,000

The proposed sub-lease agreements have been signed by the current reporting date.

Contd. on back

Required:

Discuss the accounting treatment of above under IAS-37 (Provisions, Contingent Liabilities and Contingent Assets).

Q.8. You being the accountant of a listed company have come across the following issues while finalizing the Financial Statements.

(a) The Company has taken the loan from bank and advanced the same amount to its associated concern. The rate of interest being charged by bank and company is same i.e. 12% per annum. The amount of loan is Rs. 100 million and the full amount has been outstanding for the whole year. **05**

The Board of Directors of the company are of the view that Rs. 100 million loan from bank, interest expense, receivable from associated company and interest income should not be shown in the financial statements of the company, in other words they suggest for offsetting of the said amounts.

(b) The company took another loan from the bank few years back of Rs. 200 million at 15% per annum. The loan is now payable within one year from the reporting date and should be classified under current liabilities. The Board of Directors are of the view point that they have started the negotiations with the bank for restructuring of loan and they are confident that the bank will restructure the loan and after restructuring the loan will be payable after another five years. **05**

The bank confirmed the proposed restructuring after the reporting date but before the authorization of Financial Statements.

(c) The company acquired another company during the year and while calculating goodwill the management identified that the parent has always followed the historic cost convention in preparation of its financial statements, therefore it measured the net asset of the subsidiary at their carrying values based on subsidiary company historic cost values. If the fair values of net assets have been incorporated the goodwill should have been reduced by Rs. 5.5 million. **05**

Required:

Discuss the correct accounting treatment of above in the Financial Statements of listed company; support your answer with relevant provisions of IFRS.

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate|AGP|PG|PUBLIC Sectors

Management Accounting (09.05.2017)

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

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
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Attempt all Questions

Q.1. **(a)** What are objectives & role of Management Accounting? **05**

(b) Write notes on the followings: **10**

- **(i)** Relevant Cost
- **(ii)** Variable Cost
- **(iii)** Differential Cost
- **(iv)** Opportunity/Imputed Cost
- **(v)** Replacement Cost

Q.2. Amir & Imran incorporated a company by the name of Amir & Imran (Pvt.) Ltd., to trade in blu-ray products acquired from the world's leading consumer electronics, personal computer and media manufacturers (including Apple, Dell, Hitachi, HP, JVC, LG, Mitsubishi, Panasonic, Pioneer, Philips, Samsung, Sharp, Sony, TDK and Thomson). During the first year of their operations, the projections prepared showed net income of Rs. 300,000 based on Sale Volume of 300,000 blu-rays products. The selling price was Rs. 24 each, whereas, the variable cost recorded was Rs. 15 per unit and handling cost of Rs. 3 per unit. Their fixed cost was Rs. 900,000 for the entire year.

Company is planning to prepare a budget for the coming year and anticipates that unit purchase price will increase by 30%. All calculations being done are without taking into account the effect of taxation.

Required:

(i) Calculate Amir & Imran (Pvt.) Ltd's break-even point for the current year in number of units. **03**

(ii) What will be the company's net income for the coming year if there is a 10% increase in projected unit sales volume? **03**

(iii) What volume of sales (in rupees) the company must achieve in the coming year to maintain the same net income as projected for the current year if the unit selling price remains at Rs. 24? **03**

(iv) In order to cover a 30% increase in the purchase price for the coming year and still maintain the current contribution-margin ratio, what selling price per unit the company must establish for the coming year? **06**

Q.3. Kansai Paint Company uses 90,000 gallons of raw material per year. The cost of ordering raw material is Rs. 300 per order, and the carrying cost in inventory is Rs. 1.5 per gallon per year. The company uses this at a constant rate every day throughout the year.

Contd. on back

Required:

Calculate the Economic Order Quantity (EOQ). **05**

Q.4. FY Nestle & Sons, produces various dairy products and one of them is yogurt. The yogurt is sold in five-gallon containers, which have the following price and standard variable costs.

	Rs.
Sales price	20.0
Direct material	8.0
Direct labor	2.0
Variable overhead	5.0

Budgeted fixed overhead in 2016 which was the first year of operations, was Rs. 450,000. Actual production was 225,000 five-gallon containers, of which 187,500 were sold. There were no variances recorded. The following selling and administrative expenses were incurred.

Fixed Rs. 75,000 for the year

Variable Rs. 1.0 per container sold

Required:

(a) Compute the Standard Product Cost per container of yogurt under **(a)** Variable Costing and **(b)** Absorption Costing. **04**

(b) Prepare Income Statements for 2016 using **(a)** Absorption Costing and **(b)** Variable Costing. **04**

(c) Reconcile the income reported under the two methods by listing the two key places where the Income Statements differ. **04**

(d) Reconcile the income reported under the two methods using the shortcut method. **03**

Q.5. Toy Land Plastics, manufactures toys for children. A small fan which is very popular among children sells for Rs. 40 per unit. All sales are on account, with 40% of sales collected in the month of sale and 60% collected in the following month. The data further extracted from the firm's records is as under:

- Toy Land Plastics, maintains a minimum cash balance of Rs. 45,000. Total payments in January 2018 are budgeted at Rs. 585,000.
- A schedule of cash collections for January and February of 2018 revealed the following receipts:

	Cash Receipts	
	January (Rs.)	February (Rs.)
From 31st December accounts receivable	324,000	-
From January sales	228,000	342,000
From February sales	-	235,200

- March 2018 sales are expected to total 15,000 units.
- Finished-goods inventories are maintained at 20 percent of the following month's sales.
- The December 31st, Balance Sheet revealed the following selected figures: cash, Rs. 67,500; accounts receivable, Rs. 324,000; and finished goods, Rs. 67,050.

Contd……..

Required:

- **(a)** Determine the number of units that Toy Land Plastics sold in December. **05**
- **(b)** Compute the Sales Revenue for March 2018. **05**
- **(c)** Compute the total Sales Revenue to be reported on Toy Land Plastics' budgeted Income Statement for the first quarter of 2018. **05**
- **(d)** Determine the accounts receivable balance to be reported on the March 31, 2018, in the budgeted balance sheet. **05**

Q.6. The Lion Stationery Co., is considering the purchase of a latest press considered top of the line which would cost Rs. 200,000. The estimated cash benefits from its operation are likely to be as below:

Year	Cash Benefit (Rs.)
1	50,000
2	80,000
3	80,000
4	80,000
5	70,000
6	60,000
7	50,000
8	40,000
9	30,000
10	20,000

Depreciation on the press is to be charged on straight line basis over the life time which will be 10 years. Assume a 50% tax rate and a cost of capital of 10%.

Some of the Present Value Interest Factors discounted are given below:

Years	10%	15%	16%	20%	Years	10%	15%	16%	20%
1	0.909	0.870	0.862	0.833	**6**	0.564	0.432	0.410	0.335
2	0.826	0.756	0.743	0.694	**7**	0.513	0.376	0.354	0.279
3	0.751	0.658	0.641	0.579	**8**	0.467	0.327	0.305	0.233
4	0683	0.572	0.552	0.482	**9**	0.424	0.284	0.263	0.194
5	0.621	0.497	0.476	0.402	**10**	0.386	0.247	0.227	0.162

Required:

- **(i)** Payback period **2.5**
- **(ii)** Average annual return on original investment **2.5**
- **(iii)** Net Present Value **2.5**
- **(iv)** Discounted Cash Flow Rate of Return **2.5**

Q.7. Best Buy Company is into manufacturing and due to high demand of its products in the market is always operating at full capacity. It makes four products, Alpha, Beta, Gama and Hexa. All four products are made on the imported machines, and the machine capacity for the year at Best Buy's factory is 5,250 hours. However, it is able to obtain any of these products in unlimited quantities from a sub-contractor.

Contd…..

Budgeted data is as follows:

Products	**Alpha**	**Beta**	**Gama**	**Hexa**
Annual sales demand (units)	6,000	9,000	4,500	7,500
	Rs.	**Rs.**	**Rs.**	**Rs.**
Sales price per unit	22.5	30	27	25.5
Variable cost per unit, in-house manufacture	7.5	10.5	9	10.5
Cost of external purchase (outsourcing)	12	17.7	15.75	16.5
Machine hours per unit, in-house production	0.38	0.75	0.45	0.6

Required:

(a) Which items should be produced in-house and which should be outsourced? Show all your workings along with priority for in house production? **10**

(b) Show total cost for in house production & out sourced production. **10**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2017

Corporate Sector

Audit, Assurance & Ethics (10.05.2017)

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

Additional time – 15 min for Paper Reading

[Instructions]

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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- **Start each question from fresh page.**
- **Book Allowed – International Auditing & Assurance Standards**

Attempt all Questions

Q.1 Explain five differences between Internal Auditor and External Auditor. **10**

Q.2 You are the quality assurance partner in a Chartered Accountant Firm. Following issues have been brought forward for your attention:

(i) An existing audit client Super Scoop Limited (a listed client) has approached your firm for recurring Internal Audit Services.

(ii) Mr. Kashif (an audit partner) was asked by an audit client to recruit a CFO on behalf of Company.

(iii) One of your new audit clients has said that the audit fee will be 1% of net profit.

(iv) An audit of a Listed Company is in progress, you received an email from audit manager that he has received an invitation from management to attend the annual dinner of the Company (including hotel stay) at an expensive hilly resort along with audit team.

(v) Mr. Nauman Khan, son of Mr. Yasir Khan (Audit Partner) has joined as CFO of a company in which Mr. Yasir is audit engagement partner.

Required:

(a) With reference to the Code of Ethics of Chartered Accountants issued by ICAP briefly describe the ethical risk/threat involve in above situations. **7.5**

(b) For each matter, also describe safeguards that your firm should take to reduce the ethical risk identified. **7.5**

Q.3 **(a)** What the pre-conditions of audit are, as defined in ISA-210 – Agreeing the terms of Audit Engagements? **02**

(b) You are the audit partner of Gricon Furnitures (Pvt) Ltd (GFL) and this is the first year of audit of your firm. You were appointed as auditor of GFL on 31st March 2016 and you have signed the engagement letter dated 07th April 2016. The audit for the year ended 31st March 2017 is in progress. **08**

Assuming that today is 10th April 2017, the Board has requested you to change the terms of audit engagement.

Being Audit Partner what matters, you will consider with regard to this matter?

Q.4 What are the requirements in Companies Ordinance, 1984 relating to the following:

a) Appointment of first auditors **04**

b) Appointment of subsequent auditors **04**

c) Casual Vacancy **03**

Note: provisions relating to notice or removal are not required.

Contd. on back

Q.5 You are an Audit Manager in a Chartered Accountant Firm. Currently you are reviewing working papers of the audit of Cool and Calm Limited (CCL) (A listed company). CCL manufactures and sells air conditioner, refrigerator, etc. Following information is relevant to the audit of year ended 31st March 2017:

Sr.	Particulars	Rs. in million
1.	Sales	1,600
2.	Gross Profit	800
3.	Net Profit	400
4.	Total Assets	5,000
5.	Total Liabilities	4,500

CCL has two plants, one for manufacturing of Air Conditioners and the other for refrigerator. While reviewing working papers of 'repair and maintenance expense', you noted that, the management has made significant improvement in production facilities by which the production capacity increased by 10%. CCL spent nearly Rs. 150 million on improving production facility and recorded this in 'repair and maintenance expense'. As per management since they have not purchased any new plant, this amount is expensed out.

While reviewing additions in intangible assets, you noted that CCL has capitalized training expense amounting Rs. 120 million. CFO of CCL told you that these trainings were provided to production staff and this training will enable the existing staff to cope up with future changes in technology and bring efficiencies in future. CCL has not signed any indemnity bond if any of the production staff leaves the company.

Required:

(a) Discuss the impact of above on the audit of Plant and Machinery, intangibles and related expenses. **06**

(b) Assuming management does not agree to your stance, explain the impact of above on your audit report. **06**

Q.6 You are a Senior Manager in a Chartered Accountant Firm. Recently you received an email from manager of the audit of the Texan Limited (**TL**). Extract from email is given below:

> To: Senior Manager
> From: Audit Manager
> Date: 15 April 2017
> Subject: External Confirmation – TL
>
> Dear Sir,
>
> As you know that we are in process of sending confirmation to trade receivables of **TL**. We have given a sample of trade receivables to **TL** for balance confirmation. One of the trade receivables in the sample selected is Arif Limited (**AL**). Management is not allowing us to send confirmation to this party and we have not been provided with any reason for this. Balance due from **AL** is long outstanding and is material to the Financial Statements. Kindly advise me on the following:
>
> - What actions should I take and what are the possible reasons management may not be willing, to send confirmation? and
> - If this issue remains unresolved, how this would impact audit report?
>
> Regards
>
> Audit Manager

Contd……

Required:

Draft a reply to the Audit Manager's email. (2 marks are for presentation) **12**

Q.7 **(a)** What is the significance of performance materiality? **02**

(b) Explain the following:

(i) Performance materiality at Financial Statements. **02**

(ii) Performance materiality at class of transactions, account balance or disclosure. **03**

(c) Different IFRSs and IASs have different Presentation and Disclosure requirements. Auditor needs to confirm that the Financial Statements being audited adequately present and disclose the requirements of applicable reporting standards.

Required:

In relation to above, list and briefly explain the assertions related to Presentation and Disclosure. **05**

Q.8 **(a)** **(i)** Define subsequent event. **02**

(ii) Differentiate between adjusting events after reporting period and non-adjusting events after reporting period. **02**

(b) You are the audit manager in a Chartered Accountants Firm. Following matters are still outstanding and required your attention:

(i) A fire broke in godown of one of your audit clients on 01 June 2017, damaging 70% of the inventory of hardware equipments. At any balance sheet date, inventory is a material item to the Financial Statements of that company. Audit year end date is 31st May, 2017.

(ii) On 10th May 2017, one of the major customers of another client went into liquidation and there is no chance of any recoverability. The amount due from single customer is material to Financial Statements. Audit year end date is 30th April 2017. .

Required:

Discuss the effect of above events on the Financial Statements and on the audit opinion, if Management does not agree to incorporate these in the Financial Statements. **08**

Q.9 As per ISA-530 – Audit Sampling, the auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement but this projection may not be sufficient to determine an amount to be recorded.

You are the Audit Manager in a Chartered Accountants Firm. One of newly hired trainee students has asked you following questions:

(a) What is anomaly? **02**

(b) What would happen if a misstatement is established as anomaly? **02**

(c) If a deviation is observed in a test of control, how this would be projected? **02**

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Summer Exam-2017

GATEWAY EXAM – FINANCIAL REPORTING

Short Form Questions

Marks-25

Duration: 65 minutes

Additional time – 15 min for Paper Reading

Instructions

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- Must return this booklet alongwith your Answer Scripts.
- Start each question from fresh page.
- **Book(s) are not allowed.**

Q.1. Helium company owns and operates an item of machinery that cost Rs. 1,280,000 and had accumulated depreciation of Rs. 800,000 at 1st July 2015. It is being depreciated at 12.5% on a straight line basis. **08**

On 1st January 2016, the machinery was damaged due to negligence. Due to the unavailability of replacement parts, it is not possible to repair the plant, but it still operates at a reduced capacity. Also it is expected that as a result of the damage the remaining life of the plant from the date of the damage will be only two years.

Based on its reduced capacity, the estimated present value of the plant in use is Rs. 300,000. The plant has a current disposal value of Rs. 140,000 (which will be nil in two years' time).

Required:

Prepare extracts from the Statement of Financial Position and Statement of Profit or Loss of Helium in respect of the machinery for the year ended 30th June 2016. Show workings.

Q.2. Parin Co. purchased 51,000 Superly Co.'s ordinary shares on 1st June 2016. The purchase consideration composed:

- Rs. 35 cash per share acquired
- Three shares in Parin Co. for every two shares acquired in Superly Co. Parin Co.'s shares have nominal value of Rs. 15 and fair value of Rs. 20
- Fair value of non-controlling interest at the date of acquisition was Rs. 1,500,000. The share capital and retained earnings at the date of acquisition were Rs. 1,880,000 and Rs. 2,100,000 respectively

Required:

Calculate the goodwill on acquisition of Superly using full goodwill method. **05**

Contd…..

Q.3.	Flora has announced two major restructuring plans. The first plan is to reduce its capacity by the closure of some of its smaller factories, which have already been identified. This will lead to the redundancy of 500 employees, who have all individually been selected and communicated with. The costs of this plan are Rs. 9 million in redundancy costs, Rs. 4 million in retraining costs and Rs. 5 million in lease termination costs. The second plan is to re-organize the finance and information technology department over a one-year period but it does not commence for two years. The plan results in 20% of finance staff losing their jobs during the restructuring. The costs of this plan are Rs. 10 million in redundancy costs, Rs. 6 million in retraining costs and Rs. 7 million in equipment lease termination costs. No entries have been made in the financial statements for the above plans. **Required:** Discuss the accounting treatment of above items as per IAS 37(Provisions, Contingent liabilities and Contingent assets)	**05**
Q.4.	On 1st April 2016 Highit entered into a construction contract that was expected to be completed on 30th November 2018. The agreed fixed contract price was Rs. 62 million. The estimated total cost of contract is Rs. 65.8 million. The agreed value of work completed and billed to date is 45% of the total contract revenue. The total cash received to date is Rs. 24 million. **Required:** Referring IFRS-15: **(a)** Prepare extracts of Statement of Profit or Loss and Statement of Financial Position of Highit for the year ended 31st March 2017 in respect of the above contract	**05**
	(b) What are the different methods to calculate the stage of completion of a construction contract?	**02**

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Summer Exam-2017

GATEWAY EXAM – MANAGEMENT ACCOUNTING

Short Form Questions

Marks-25

Duration: 65 minutes

Additional time – 15 min for Paper Reading

Instructions

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
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- **Must return this booklet alongwith your Answer Scripts.**
- Start each question from fresh page.
- **Book(s) are not allowed.**

Q.1. **Nisa-Ken Foundation** is an NGO (Non-governmental Organization) which primarily works as a Shelter Home for females who have been chased out of their homes following domestic abuse, who were rescued from forced slavery and those who are ridden out of their families in the name of honour or cultural practices in the country after they were divorced or their husband died. The founder of the organization, Mr. Nabeel, has recently been concerned with the performance of the organization because of the falling donation levels after a recent threat received from a local village landlord, it is therefore his concern that the hard work he and his friends (Directors) are putting is producing fruitful results.

Mr. Nabeel has primarily focused mainly on the effectiveness of the organization according to the Three Es (Economy, Efficiency & Effectiveness) concept of Business Management. The main goal being the rehabilitation of the disturbed female community that the NGO is providing service to. It aims to bring those females back to the community in a different city where there life is not threatened and they can make their own family & prove to be a productive part of the society (Getting a Job, Getting Married and having Children).

During this period of rehabilitation they are provided with a home like environment and given as much joy as possible through recreation activities which take their minds away from the difficulties they have faced previously. After having in operation for 3 years it has been decided by the Directors of the NGO that there needs to be established Critical Success Factors (CSF) and Key Performance Indicators (KPI) according to them so that the organization can understand its 'Effectiveness' of operations in the society overall.

During a meeting with you (the management accountant) Mr. Nabeel briefed his sentiments towards the organization's objective as, '... I want to make sure that the Females on campus are brought back to living normal lives in the society and are respected enough to be allowed in doing so … I want to ensure that Domestically Abused, Forced Slaves & Family Ridden females are all served well and their lives are restored to being peaceful again

(a) Determine the Critical Success Factor that Nisa-Ken has according to the given scenario and the sentiments of the Founder, Mr. Nabeel. **02**

(b) Devise some Key Performance Indicators (KPI) to determine the achievement of the Critical Success Factor that you have provided in (a) with reasons of why you chose that particular KPI to be appropriate. **06**

Contd…..

Q.2. NeeWan is a Automobile Manufacturer and has developed quite some expertise in the field of producing hybrid vehicles, which utilize Dry Batteries in low performance mode and facilitate the efficient use of Petrol. It during the start of the period prepared the following Budget for its cost, revenues & profit according to budgeted sales of 5,000 units.

Description	Rs. (m)
Revenue	6,000
Material cost	(1,500)
Labour cost	(750)
Overheads	(1,000)
Profit	2,650

Overheads are 40% variable and the rest are considered to remain fixed in total with the change in activity.

However, the actual production & sales was only 4,500 units and the managers argued that their performance should not be compared to Budget which was made for 5,000 units. It was decided that a flex budget should be prepared which would reflect the budgeted costs flexed according to the actual activity of 4,500 units making it comparable to actual performance of managers.

Required:

Make a flexed budget on the basis of 4,500 units. **05**

Q.3. **CamOpp Incorporation** produces smart phones which are equipped with high quality camera modules and the customers who prefer their phones are photography enthusiasts who want to capture every right moment with a snap from their phones rather than keeping a bulky DSLR professional camera with them all the time.

It has two divisions currently operating in the same facility namely: Phone and Camera. Phone division manufactures the actual phone component including all the chipsets, the aluminum body and inserts the camera module that Camera division transfers to it. The Camera division is responsible for making the actual camera module which is regarded as the main selling point of their smart phones. The Phone division can buy the module externally at a cost of Rs. 3,000.

The Phone division after the manufacturing is complete, sells it to the external market. Recently CamOpp's directors have become concerned about the performance of the business and how it is not operating at its maximum potential. The directors believe that it's because the Camera division despite making the camera module being of bleeding edge technology is still not rewarded for its efforts as there is a lack of efficiency at the Phone division which is not putting up effort to ensure reaping maximum benefit from the other division's efforts.

Transfer pricing have intrigued the directors as the solution to the problem which would ensure that both of the divisions are equally accountable for their respective efforts and efficiencies.

Contd…..

Following information is available from the two divisions:

	Phone Division	Camera Division
	Rs.	Rs.
Selling Price	9,000	-
Variable Cost per unit	5,500 (2,500 to Buy Camera module from Camera Division)	2,500
Total Fixed Costs	2,500,000	1,000,000
Total Sales Units	1,000	1,000 (All Transferred to Phone Division)
Profit	1,000,000	-
External Demand	1,000	200

Required:

(a) Determine the range of transfer price (minimum & maximum) that the two divisions would agree at mutually if:

(i) Camera Division has spare capacity and have capacity to sell 400 units externally (after fulfilling the demand of Phone Division) at a Selling Price of Rs. 4,000 **02**

(ii) Camera Division has no spare capacity and can only make 1,000 units (equal to the demand by Phone Division), which it can sell externally at a Selling Price of Rs. 4,000 **04**

(b) What other factors should the company's Camera Division consider before transferring the modules internally and selling it on external market? How would this approach differ from what the owners of the business would have? **02**

Q.4. **ChauChax Knox** is a German automobile manufacturer that is planning on setting up a new plant as part of the expansion plan that the company has deduced in order to utilise the low cost labour in a new country where the production will be majorly shifted.

The investment required (at Yo) will be Rs. 4.5 bn which would be paid in as capital for the construction company that is primarily being incorporated to make the purpose-built manufacturing plant that would suit the requirements of ChauChax Knox. After 8 years it is estimated that the manufacturing plant would not be useful anymore because of the advancements in the development of automobiles at that time, and it would have to be closed for development at a dismantling cost of Rs. 450 m.

The following cash flows are involved in regards to this investment:

Year	Cash flows (Rs. 000)
Yo	4,500,000
Y1	1,250,000
Y2	800,000
Y3	900,000
Y4	2,400,000
Y5 - Y8	500,000
Y8	(450,000)

Contd…..

Directors of the corporation are majorly concerned with the Payback time of the investment that will have to be made and also about the overall economic benefit that this investment will bring to the corporation in financial terms. The cost of capital (%) would be 8% for the foreseeable future.

Determine the following:

(i)	Discounted Payback Table (Rs. m)	**02**
(ii)	Discounted Payback Period (in Years and Months)	**01**
(iii)	Net Present Value (Rs. m)	**01**

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Summer Exam-2017

GATEWAY EXAM – AUDIT, ASSURANCE & ETHICS

Short Form Questions

Marks-25

Duration: 65 minutes

Additional time – 15 min for Paper Reading

Instructions

- Ensure that the question paper delivered to you is the same, in which you intend to appear.
- Read the instructions given on the title page of Answer Script.
- **Must return this booklet alongwith your Answer Scripts.**
- Start each question from fresh page.
- **Book(s) are not allowed.**

Q.1.	**(a)**	Explain the circumstances under which external auditors can disclose information relating to their clients to third parties without the knowledge or consent of the client.	**05**
	(b)	Peter has been recruited as the audit manager for Battle & Co, an audit firm. At the first meeting, Peter has been assigned the audit of Shoe Wonder, an existing client of Battle & Co. Shoe Wonder sells a variety of shoes all over the world. It has 50 retail outlets world-wide, to reach out to its international customers. **Required:** What information will Peter obtain from the company and his firm, which would help him in getting to know the client's business environment?	**05**
Q.2.	**(a)**	The audit report of Tantrum Plc for the year ended 31st October 20X9 was finalized on 22nd December 20X9. There was an earthquake on 1st January 20Y0 that destroyed one of its depots and as a result it faced losses amounting to Rs. 200,000. The Financial Statements were issued on 15th January 20Y0. This loss was material as it was likely to affect the true and fair view of the Financial Statements to be published. **Required:** State whether this event calls for an adjustment in the Financial Statements.	**03**
	(b)	Outline procedures adopted by the auditor in order to IDENTIFY subsequent events during the audit of a company.	**04**
	(c)	The audit report of Royal Plc was finalized on 17th February 20X9. One of its trade receivables accounts, Blue Ltd, went bad and no money could be collected from the client. Blue went bankrupt subsequent to the date of the audit report. The statements were yet to be issued to the shareholders. The management informed the auditor of this event before the date of issue of the Financial Statements. **Required:** State the responsibility of the auditor regarding this subsequent event review.	**03**

Contd…..

Q.3. Linda is the new auditor of Trendy Mobile Company, an organization that sells mobile phones. Trendy sells a large number and variety of phones through its chain of nationwide showrooms and agencies. It has expanded rapidly. The Chief Executive Officer is from a sales background and has little understanding or appreciation of the importance of internal control.

At present, Trendy also accepts sales orders by mail as well as over the phone. In addition, the organization is also considering going "on-line" and taking orders over the internet. An accounting MIS has recently been implemented, though the staff have not yet been fully trained on its use. One of the issues that Trendy would like to have investigated is why; despite the sales levels increasing (20% in the last year alone) the organization's profitability is not showing a corresponding increase.

Required:

Identify and describe THREE matters that give rise to the audit risk of Trendy Mobile Company. **05**

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