Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate Sector

Business Laws (10.05.2018)

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. Describe the Jurisdiction of Court and procedure of appeal under the provisions of Companies Act 2017. **10**

Q.2. The position of Chief Executive Officer is vacant in "Trade Limited". Hamid who is one of the directors ask his cousin Kamran to apply for this job. On the day of Board meeting Hamid did not disclose this fact in front of the Board, and Board appointed Kamran as C.E.O of the Company. After two months, it came to the knowledge of the Directors of the Company that Kamran and Hamid are cousins. **10**

Required:

a) Whether disclosure was mandatory as per the Companies Act 2017?

b) What action may be taken by the company in such a situation?

Q.3. Zainab and Umair are spouses. They are the co-owners of a car which they use mutually. Umair on account of transfer in his job has to move in another town so he left his car for his wife's use. Zainab sells the car to her friend Zara without informing Umair. **10**

Required:

a) Whether the contract is valid?

b) Does Zainab have the right to sell the car?

c) Whether Zara will get a good title or not?

Q.4. Ammar and Sami both entered into a contract that if Ammar sells 500 bags of chips in a day then Sami will pay him Rs. 5 per bag. Ammar sells 250 packs a day and asks for his commission. Sami refused to pay the commission. **10**

Required:

Whether Sami is obliged to pay? Explain by referring the relevant provisions of the Contract Act 1872.

Q.5. What do you understand by Memorandum of Association of a company limited by shares? State the procedure by which the different clauses of MOA of a company may be altered? **10**

Q.6. Define Director. How long a Director may hold office? What are the principal restrictions on the appointment of a Director? **10**

Contd. on back

Q.7. Under the Companies Act 2017, it is mandatory for a company having a share capital to file its Annual Return. Imtiaz & Co. being a listed company failed to comply with this requirement. **10**

Required:

a) What action may be taken against Imtiaz & Co. for not furnishing its Annual Return?

b) Whether the company may seek any protection against the punishment/penalty?

(Support your answers by referring the relevant provisions of Law.)

Q.8. Ali entered into a contract with Yameen to sell him 20 tons of super rice and 10 tons sugar, to be produced in his field. After the cultivation of sugar cane, the crops of sugar cane got affected with insects. Ali suffered loss and he is worried about his contract with Yameen. **10**

Suggest Ali:

a) Whether he can sell rice crop to Yameen?

b) Whether both contracts are enforceable by law?

(Support your answers with Legal reasoning.)

Q.9. a) Various ways are described in Law of Contract to discharge the Contract. Discharge by performance is one of them, Explain. **05**

b) Define "Ostensible Authority" **02**

c) Goods can be pledged by non-owners. Comment. **03**

Q.10. a) Can Precedent be altered or avoided? If yes then how? **05**

b) Which Procedure is adopted by National Assembly to pass the Money Bill? **05**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Business Economics (08.05.2018)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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

Attempt all Questions

Q.1. What is meant by Economic Resources? Explain different categories of Economic Resources. **10**

Q.2. a) Define Law of Diminishing Marginal Utility and briefly explain its exceptions. **04**

b) Suppose that the price of tickets at your local picture theatre is determined by market forces. Currently, the demand and supply schedules are as follows: **06**

Price (Rs.)	Quantity Demanded	Quantity Supplied
400	1,000	600
800	800	600
1,200	600	600
1,600	400	600
2,000	200	600

Required:

(i) Draw the Demand and Supply Curves. What is unusual about this Supply Curve? Why might this be true?

(ii) What are the Equilibrium Price and Quantity of tickets?

Q.3. Country ABC consists of four sectors; Households, Firms, Government and Foreign Traders. Briefly explain the **Injections** and **Withdrawals** associated with circular flow of National Income of this economy. **10**

Q.4. What is Money Supply? Explain the components of Money Supply. **06**

Q.5. Define following Economic Terms:

a) Monetary Policy **02**

b) Quota **02**

c) Opportunity Cost **02**

Q.6. a) What is Perfect Competition? Briefly explain the characteristics of Perfect Competition. **06**

b) BCD Chemicals is a monopolist firm; it is attaining long run equilibrium. Show by diagram. **04**

Contd. on back

Q.7. a) What is indifference curve? Briefly explain assumptions of indifference curve. **06**

b) Fill in the missing values for Marginal, Average, and Total Product in the following table. Assume that Capital and Labor are the only two inputs in the production function and that capital is held fixed: **04**

Units of Labor	Total Product	Marginal Product	Average Product
6	120	______	20
7	147	______	21
8	______	21	______
9	______	______	20

Q.8. a) State the determinants of saving. **04**

b) Suppose the Marginal Propensity to consume in an economy is 0.80. How much the total income will be generated if the initial injection of investment is Rs.5,000. Also trace the income generation process for four rounds of spending with reference of Multiplier Effect. **06**

Q.9. a) Differentiate Frictional and Structural unemployment. **04**

b) Economy XYZ is facing inflation. Briefly explain the cost of inflation to this economy. **06**

Q.10. a) Explain the main functions of Central Bank. **08**

b) What is meant by Balance of Payments? Explain different accounts established under Balance of Payments. **10**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Cost Accounting (09.05.2018)

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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Attempt all Questions

Q.1. On May 10, IDM Ltd., sold 190 small toys computers to Toyic Trading. At the date of sale, Co.'s perpetual inventory records included the following cost layers for the computers:

Purchase Date	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
April 09	170	2,500	425,000
May 01	130	2,600	338,000
Total on hand	**300**	-	**763,000**

Required:

(a) Prepare journal entries to record the cost of the 190 computers sold on May 10, assuming that IDM Ltd., uses the:

(i) Average-Cost Method **05**

(ii) FIFO Method **05**

(b) Discuss briefly the financial reporting differences that may arise from choosing the FIFO method over the Average method. **05**

Q.2. ABC company involved in manufacturing uses Absorption Costing in its operations. It has high level of fixed production costs. The following information has been extracted from Company's records:

Days	Units Produced
Budgeted fixed production overheads	Rs. 4,500,000
Budgeted (Normal) activity levels:	
Units	62,500 units
Labour hours	1,000,000 hours
Actual fixed production overheads	Rs. 4,890,350

Required:

Calculate the following Variances relating to Fixed Overheads:

(i) Expenditure Variance **05**

(ii) Volume Variance **05**

(iii) Explain, what each Variance depicts **05**

Q.3. The following data pertain to Al-Fateh Company, a manufacturer of cardboard boxes:

Work in process, March 1:	20,000 units*
Direct material	Rs. 11,000
Conversion	Rs. 34,000
Cost incurred during March:	
Direct material	Rs. 220,000
Conversion	Rs. 342,000

*Complete as to direct material, 40% complete as to conversion.

The equivalent units of activity for March were as follows:

	Units
Direct material (weighted-average method)	220,000
Conversion (weighted-average method)	184,000
Completed and transferred out	180,000

Required:

Compute the following amounts using Weighted-Average Process Costing: **20**

(i) Cost of goods completed and transferred out during March

(ii) Cost of the March 31st, work in process inventory

Q.4. MMM Limited is a manufacturing Company following standard costing system. The standard manufacturing overhead costs per switch are based on direct labor hours and are as follows:

Descriptions	Rs.
Variable overhead (10 hours @ Rs. 9.00 per hour)	90
Fixed overhead (10 hours @ Rs. 16.00 per hour)*	160
Total overhead	**250**

*based on capacity of 600,000 direct labor hours per month.

The other information that is available from the records of the company shows:

- Overhead costs variable Rs. 4,510,000.
- Overhead costs-Fixed Rs. 10,250,000.
- Actual production 65,000 switches, scheduled production 120,000 switches.
- Direct labour Rs. 2,550,000 (375,000 hours)

Required:

Compute the following Variances:

(i) Spending Variance (Variable Overhead) **05**

(ii) Efficiency Variance (Variable Overhead) **05**

(iii) Budget Variance (Fixed) **05**

(iv) Volume Variance (Fixed) **05**

Q.5. Derel & Co., uses a periodic inventory system. The company's records show the opening inventory of one of its items on January 1st, and the purchases of this item during the current year to be as follows:

			(Rs.)
Jan. 01	Beginning Inventory	16 units @ Rs. 6.00	96.00
Feb. 23	Purchase	36 units @ Rs. 7.00	252.00
Apr. 20	Purchase	90 units @ Rs. 7.60	684.00
May 04	Purchase	120 units @ Rs. 8.00	960.00
Nov. 30	Purchase	27 units @ Rs.10.00	270.00
		289	2,262.00

A physical stock count indicates that 40 units were in inventory at year-end.

Required:

Determine the cost of the ending inventory, based on each of the following methods of inventory valuation.

(a) Average cost **05**

(b) FIFO **05**

(c) Which of valuation method gives higher value of closing stocks? Explain the reason why Inventory value is higher in one of these methods? **05**

Q.6. Energy (Pvt) Company refines a variety of petrochemical products. The following data has been extracted from company's records.

Work in process, Opening	4,000,000 gallons
Direct material	100% complete
Conversion	25% complete
Units started in process during the month	1,900,000 gallons
Work in process, closing	480,000 gallons
Direct material	100% complete
Conversion	80% complete

Required:

Calculate the Equivalent Units of direct material and conversion for the month of November. Use the weighted-average method of process costing. **15**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate Sector

Financial Accounting (10.05.2018)

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

Additional time – 15 min for Paper Reading

[Instructions]

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Attempt all Questions

Q.1. Hussain and Basharat have been in partnership for many years sharing profits in the ratio 3:2. Interest on capital was 8%. Accounts are prepared to 30th June.

On 1st April 2012 they admitted Rida to the partnership. On her admission Rida introduced cash totaling Rs.10,000 of which Rs.3,000 was in respect of the goodwill taken over by her. The partnership does not maintain goodwill in the books of account.

The new partnership agreement stated:

1. Interest on capital is 10%.
2. Profits are shared by Hussain, Basharat and Rida in the ratio of 3:2:1.
3. Hussain, Basharat and Rida receive annual salaries of Rs. 8,000, Rs. 6,000 and Rs. 4,000 respectively.

On 30th June 2012 the following balances were provided:

	Debit	Credit
	Rs.	Rs.
Capital accounts at 1 July 2011:		
Hussain		45,000
Basharat		20,000
Inventories at 1st July 2011	23,850	
Non-current assets at cost	25,000	
Accumulated Depreciation		12,200
Revenue		340,650
Purchases	265,760	
General expenses	47,590	

Additional information:

- The non-current assets are to be depreciated at 20% per annum using the reducing balance method.
- Inventories were valued at Rs.27,600 on 30th June 2012. This figure included a group of damaged items, which were valued at a cost of Rs.950. These items could normally be sold for Rs.1,600 and can now only be sold for Rs.450.
- There was an accrued general expense of Rs.410 at 30th June 2012.
- A debt of Rs.1,350 was written off in December 2011.
- Gross profit and general expenses accrue evenly over the year.

Contd. on back

Required:

a) Prepare the Partners' Capital Accounts at 1st April 2012 on the admission of Rida. **08**

b) Prepare an Income Statement and appropriation account for the nine-month period to 31st March 2012 and the three-month period to 30th June 2012. **12**

Note: The Gross profit for the year ended 30th June 2012 was Rs.78,140.

Q.2. Dar purchased a property costing Rs.750,000 on 1st January 2004 with a useful economic life of 10 years. It has no residual value. At 31st December 2004 the property was valued at Rs.810,000 resulting in a gain on revaluation being recorded in other comprehensive income of Rs.135,000. There was no change to its useful life. Dar does not make a transfer to realized profits in respect of excess depreciation on revalued assets.

On 31st December 2006 the property was sold for Rs.900,000.

Required:

How should disposal on the previously revalued asset be treated in the Financial Statements for the year ended 31st December 2006? **10**

Q.3. Yaqoob Plc prepares accounts annually to 30th September. The Directors provide the following information:

Trial Balance at 30th September 2013		
	Debit	**Credit**
	Rs.	**Rs.**
Revenue		936,011
Purchases	479,352	
Distribution costs	108,376	
Administrative expenses	236,758	
Ordinary share capital		400,000
Share premium		40,000
Retained earnings		57,386
Land and buildings:		
Cost	380,000	
Accumulated depreciation		78,400
Plant and machinery:		
Cost	105,000	
Accumulated depreciation		66,500
Motor vehicles:		
Cost	65,000	
Accumulated depreciation		37,578
Loss on disposal of motor vehicle	850	
Inventory at 1st October 2012	177,838	
Provision for doubtful receivables		6,834
Trade receivables	138,450	
Trade payables		51,243
Cash and cash equivalents	-	17,672
	1,691,624	**1,691,624**

Contd. on back

Additional information:

1. Land, which cost Rs.100,000 is not to be depreciated.
2. Depreciation is to be provided as follows:
   (a) Buildings 4% on cost
   (b) Plant and machinery 10% on cost
   (c) Motor vehicles 25% reducing balance
   (d) A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
   (e) The charge is split in the ratio 3:1 between administrative expenses and distribution costs.
   (f) Plant and machinery costing Rs.10,000 was acquired on 1st April 2013.
   (g) A motor vehicle which had been purchased on 1st February 2011 for Rs.16,000 was sold on 1st June 2013 for Rs.8,150.
3. The inventory at 30th September 2013 was valued as follows:
   (a) Net realizable value Rs.212, 653
   (b) Cost Rs.172, 927
4. The provision for doubtful receivables is to be provided at 4% of the trade receivables and the movement is to be treated as an administrative expense.
5. An invoice for an administrative expense of Rs.4,525 remained unpaid at 30th September 2013.
6. There was a prepayment for a distribution cost at 30th September 2013 of Rs.2,760.
7. The tax charge for the year is estimated to be Rs.16, 730.

Required:

In accordance with IAS 1:

(a) Prepare an Income Statement for the year ended 30th September 2013. **16**

(b) Prepare a Statement of Financial Position as at 30th September 2013. **14**

Q.4. The following note to the published Statement of Financial Position of Bilal Limited gave details of the movements on Non-Current assets in the year ended 30th April 2005:

	Premises	Plant and Machinery	Motor Vehicles	Total
Non-Current assets at cost	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**
At cost at 30th April 2004	1,000	800	560	2,360
Revaluation	500	–	–	500
Purchases	–	300	260	560
Disposals	–	(100)	(80)	(180)
At cost at 30th April 2005	1,500	1,000	740	3,240
Depreciation				
Balance at 30th April 2004	300	380	255	935
Revaluation	(300)	–	–	(300)
Provided in the year	–	110	95	205
Disposals	–	(90)	(60)	(150)
At 30th April 2005	–	400	290	690
Net book value at 30th April 2005	1,500	600	450	2,550

Contd…..

- During the year ended 30th April 2005, plant and machinery was sold for Rs. 25,000 and motor vehicles were sold for Rs. 8,000.
- Operating Profit for the year ended was Rs. 227,000.

Required:

Prepare the following extracts from the Cash Flow Statement for the year ended 30th April 2005:

(a) Reconciliation of operating profit to net cash flow from operating activities. **05**

(b) Capital Expenditure. **03**

Q.5. From the following information relating to the Islamabad Branch for the year ending 31st March 2007, **prepare** the Branch Account in the Books of Head Office. **08**

	Rs.
Opening Stock at Branch	37,500
Opening Debtors in Branch	75,000
Opening Petty Cash at Branch	750
Goods Sent to Branch	630,000
Cash Sales	150,000
Cash received from debtors	525,000
Goods returned by branch	5,000
Credit Sales	570,000
Cheques sent to Branch:	
Salaries	22,500
Rent & Taxes	3,750
Petty Cash	2,750
Closing Stock at branch	62,500
Closing Debtors at Branch	120,000
Closing Petty Cash at Branch	500

Q.6. In Year 2, a business has four items of inventory. A count of the inventory has established that the amounts of inventory currently held, at cost, are as follows:

	Rs.
Inventory item A1	8,000
Inventory Item A2	14,000
Inventory Item B1	16,000
Inventory Item C1	6,000

Inventory items A1 and C1 are no longer used in normal business operations, due to a major change in business strategy. The inventory of item A1 could be disposed off for Rs.7,800 less selling costs of Rs.500. The inventory of item C1 could be disposed off for Rs.7,000 less selling costs of Rs.200.

Required:

What should be the value for inventory in the Statement of Financial Position? **06**

Q.7. Naeem's revenue as shown in its Draft Statement of Profit or Loss for the year ended 31st December 2009 is Rs.27 million. This includes Rs.8 million for a consignment of goods sold on 31st December 2009 on which Naeem will incur ongoing service and support costs for two years after the sale. **06**

Contd.......

The supply of the goods and the provision of service and support are separate performance obligations under the terms of **IFRS 15 Revenue from contracts with customers.** The cost of providing service and support is estimated at Rs.800,000 per annum. Naeem applies a 30% mark-up to all service costs. At what amount should revenue be shown in the Statement of Profit or Loss of Naeem for the year ended 31st December 2009?

Q.8. Mehak entered into a contract in respect of which performance obligations are satisfied over time on 1st January 2004. The contract is expected to last 24 months. The price which has been agreed for the contract is Rs.5 million. At 30th September 2004 the costs incurred on the contract were Rs.1.6 million and the estimated remaining costs to complete were Rs.2.4 million.

On 20th September 2004 Mehak received a payment from the customer of Rs.1.8 million which was equal to the total of the amounts invoiced. Mehak calculates the stage of completion of its performance obligations on contracts on the basis of amounts invoiced to the contract price.

Required:

What amount would be reported in Mehak's Statement of Financial Position as at 30th September 2004 as the contract asset arising from the above contract? **05**

Q.9. A company entered into a contract on 1st January 2005 to build a factory. The total contract revenue was Rs. 2.8 million. At 31st December 2005 the contract was certified as 45% complete. Costs incurred during the year were Rs.740,000 and costs to complete are estimated at Rs.1.4 million. Rs.700,000 has been billed to the customer but not yet paid.

Required:

What amount will be recognized as a contract asset or liability in respect of this contract in the Statement of Financial Position as at 31st December 2005? **07**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Bus. Com. & Report Writing (11.05.2018)

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. Poor listening is often a major cause of oral miscommunication. A considerable number of persons are inefficient listeners. Suggest **FIVE** guidelines one should follow to be a Good Listener. **05**

Q.2. Creativity is the ability to produce original and unusual ideas. Enumerate any **THREE** characteristics of a Creative Thinker. **03**

Q.3. Business letters are a formal means of communication. There are many purposes of creating and sending such letters. Narrate the purposes of writing the following types of letters: **10**

(i) Follow-up Letters
(ii) Covering Letters
(iii) Acknowledgement Letters
(iv) Adjustment Letters
(v) Inquiry Letters

Q.4. **(a)** Enumerate any **FOUR** advantages of Blogs (Web Logs). **04**

(b) When should a client company prefer Dedicated Web Hosting over Standard Web Hosting? Suggest any **THREE** valid reasons. **06**

(c) Discuss limitations of Video Conferencing. **05**

Q.5. As the Head of your office, draft a circular letter for the staff for ensuring Punctuality. Mention that late arrival has been observed and warn of consequences of late arrival. Set the Ground Rules and convey them clearly. The rules may include time tracking method, procedure of reporting late in case of emergency, Late-to-Work Penalty, etc. **12**

Q.6. The use of visual aids enhances the comprehension of the message. List down **FIVE** guiding principles for the effective use of visual aids. **05**

Q.7. Resolving a conflict is a challenging task. Common forms of resolving conflict include: Mediation and Arbitration. Define both. **04**

Q.8. Originality in business messages demands avoiding Clichés, negative words and phrases. Explain both with **TWO** examples for each. **06**

Contd. on back

Q.9. Mr. Abdullah Khaqani is the head of internal audit at a large company. He is concerned about few of his subordinates' consistent substandard performance in the last few months. He not only wants to communicate his thoughts to his subordinates but also warn them to improve the quality of work performance to avoid any unwanted consequences. He also wants that after the discussion/ communication, the staff should not feel demotivated or reprimanded. Mr. Abdullah Khaqani thinks that he should not send them a written warning; he should have an oral (face-to-face) communication. Being a student of business communication, support his decision with arguments. **08**

Q.10. **a)** What is meant by Agenda? What items should be included in an agenda of a formal meeting? **06**

b) The minute-taker is a person who records the minutes of a meeting. Narrate the responsibilities of the Minute Taker. **05**

Q.11. What is Video Conferencing? Why is Video Conferencing becoming so popular in commercial organizations? **07**

Q.12. You are the Chief Operating Officer (COO) of a major retailing company which runs twenty stores around the country. Recently, one of the stores has been losing money while all the other stores have been increasing their revenues. Your Chief Executive Officer (CEO) has asked you to look into the matter and write a report on your findings, and give recommendations. Use your imagination to fill in the details. **14**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate Sector

Taxation (07.05.2018)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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Attempt all Questions

Q.1. Akhtar, aged 55, is employed as a salesman by Farwa Pharmaceuticals (Pvt.) Ltd (FPPL). His earnings and relevant expenditures for the tax year ended 30th June 2018 are as follows:

Current employment

- A basic salary of Rs. 25,000 per month.
- A utility allowance at 5% of his basic salary. This payment is gratuitous and not covered in his employment agreement.
- Commission earnings for the year of Rs. 375,000.
- Training allowance of Rs. 10,000 per month for the training of newly recruited trainee salesmen.
- In February 2018, Akhtar won the salesman of the year award. The award consisted of paid holiday of 15 days along with tickets and a hotel stay in Bali, Indonesia, at a total cost of Rs. 450,000.
- Akhtar is provided with a car by FPPL which cost the company Rs. 1,150,000. The running expenses of the car incurred during the year and reimbursed fully by FPPL were Rs. 230,000. The log book of the car showed personal use of the car as 20%.
- In addition to a medical allowance at 9% of his basic salary, Akhtar was also reimbursed treatment expenses of Rs. 430,000 for indoor treatment at a private hospital, in accordance with the terms of his employment.
- Akhtar and FPPL each contribute Rs. 2,500 per month towards a recognized provident fund.
- FPPL advanced Akhtar a loan of Rs. 2,000,000 on 1st January 2018 at a mark-up of 2% per annum as per the policy of the company.
- Akhtar had to spend one week in a risky area in connection with a sales campaign for a new product for which he was given a dangerous working condition supplement of Rs. 450,000.

Other Receipts:

- A labour court awarded Akhtar Rs. 900,000 in respect of his unfair dismissal claim against his former employer. When making payment of the awarded amount, his former employer withheld tax of Rs. 90,000. Akhtar paid Rs. 80,000 to his lawyer through a crossed cheque in connection with the court proceedings leading to this award.

Contd. on back

- Other amounts of tax withheld at source were:
  - **(i)** Rs. 190,000 by FPPL.
  - **(ii)** Rs. 3,000 along with telephone bills.
  - **(iii)** Rs.8,000 in connection with a function held in a restaurant.

Required:

Compute Akhtar's taxable income and tax payable for the tax year 2018. Give reasons for the treatment of any items excluded from the taxable income or for which no expense/deduction is allowed. **14**

Q.2. **a)** Explain the difference between the cash-basis of accounting and the accrual-basis of accounting. **04**

b) State the procedure for changing the method of accounting used for computing income from business and the adjustments which will need to be made in the computation of income on adopting such a change. **04**

Q.3. Define the following in view of the Income Tax Ordinance, 2001:

(i) Salary **04**

(ii) Capital Assets **04**

(iii) Intangibles **03**

Q.4. Define the following in view of the Sales Tax Act, 1990:

(i) Tier-1 Retailers **04**

(ii) Trust **02**

(iii) Whistleblower **03**

(iv) Open Market Price **02**

Q.5. **a)** Taxes are primary revenue yielding tools of the Government of modern ages. You are required to state any three non-revenue objectives which the Government achieves by imposing taxation. **03**

b) List any five taxes which can be imposed by the Federal Government. **05**

Q.6. Discuss the provisions of the Income Tax Ordinance, 2001 regarding set off and carry forward of losses under the following heads:

(i) Income from Business **05**

(ii) Income from Speculation Business **04**

Q.7. Pioneer Limited **(PL)**, an unlisted public company, was engaged in the business of producing dairy products in Punjab. On 1st January 2016, **PL** established a new factory in Sheikhupura where the Federal Government has allowed one-year tax exemption to all new businesses. **PL** imported plant and machinery for its new factory at a cost of Rs. 8,200,000 from Germany. **PL** received a Federal grant of Rs. 1,000,000 for installing the machinery in Sheikhupura whereas the actual expenditure on installation was also amounted to Rs. 1,000,000. Transportation cost of Rs. 200,000 was paid for bringing the machinery to the factory. During installation, one of the parts was damaged which had to be replaced at a cost of Rs. 45,000. **PL** also paid a premium of Rs. 50,000 for insuring the machinery against fire and theft. A cost of Rs. 5,000,000 was incurred towards construction of building and Rs. 1,200,000 for the acquisition of furniture and fittings. The factory was completed by the end of June 2016 and commercial production started on 1st July 2016.

Contd……..

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute tax depreciation which **PL** may claim as deduction in computing its taxable income for the year ended 30th June 2018. **08**

Q.8. **a)** Under the provisions of the Income Tax Ordinance, 2001 who may be appointed by the Federal Government as a judicial and accountant member of the Appellate Tribunal? **04**

b) Under the provisions of the Income Tax Ordinance, 2001 briefly discuss the following:

(i) The term 'Concealed Assets'. **02**

(ii) The powers of Commissioner relating to the concealed assets of any person when these are impounded by the Federal Government. **03**

c) Anwar had filed his return of income for the Tax Year 2013 on 31st August 2013. Discuss the following in the light of provisions of the Income Tax Ordinance, 2001:

(i) By which date the Commissioner of Income Tax could make the first amendment of the assessment, if required. **02**

(ii) By which date any further amendment can be made if the first amendment was made on 15th February 2017. **02**

Q.9. Define the following in view of the Federal Excise Act, 2005.

(i) Non-tariff Area **02**

(ii) Adjustment **02**

(iii) Dutiable Goods **02**

Q.10. Babar is a registered person under the Sales Tax Act, 1990, and is engaged in the business of the manufacture and supply of goods chargeable to sales tax at the standard rate of 17%. His business transactions for the month of February 2018 were as follows:

(i) Sales including exports, exclusive of sales tax:

	Rs.
• Local supplies to unregistered persons	4,000,000
• Local supplies to registered persons	5,000,000
• Local supplies to diplomats in Islamabad covered Under the Fifth Schedule	1,000,000
• Exports to UAE with the intention of re-importing the same to Pakistan by a registered person	3,000,000

(ii) Payments for raw material purchases, inclusive of sales tax, made to the following registered persons:

	Rs.
• To Mr. Qadir in cash	46,800
• To Zahir through a crossed cheque drawn on a personal bank account of Babar fully verifiable	3,510,000
• To Nasir through an online payment from the business account of Babar to the business account of Nasir, verifiable from the Bank Statements of Babar and Nasir	8,190,000

(iii) An electricity bill of Rs. 600,000 paid in cash which included a sales tax amount of Rs. 114,000.

Contd………

(iv) An amount of Rs. 1,053,000 inclusive of sales tax due to Ilyas a supplier of raw materials, was outstanding for 181 days on 1st February, 2018. Babar has already claimed the amount of input tax as per the sales tax invoice issued by Ilyas.

Required:

Compute the Sales Tax Payable by Babar with his sales tax return for the month of February 2018. **12**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate Sector

Financial Reporting (07.05.2018)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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

Attempt all Questions

Q.1. The following is the Statement of Comprehensive Income of Parent Company Limited (PCL) and its Subsidiary Company Limited (SCL) for the year ended December 31st, 2017.

Profit or Loss Account	**PCL Rs. (000)**	**SCL Rs. (000)**
Sales	54,500	32,600
Cost of Sales	(30,300)	(18,360)
Gross Profit	24,200	14,240
Administrative Expenses	(4,569)	(3,256)
Selling Expenses	(4,681)	(1,444)
Operating Profit	14,950	9,540
Finance Cost	(525)	(230)
Dividend Income	1,750	-
Profit before tax	16,175	9,310
Tax Expense	(4,650)	(2,320)
Profit after tax	11,525	6,990
Other Comprehensive Income		
Revaluation surplus	4,000	--
Total other Comprehensive Income	4,000	--
Total Comprehensive Income	15,525	6,990

Other relevant information is as under:

1) PCL acquired 75% shareholding in SCL one year ago, the detail of cost of investment paid by PCL and fair value of net assets of SCL was as under: -

- **Cost of Investment**
  - (i) PCL paid immediately Rs. 3 million to the old shareholders of SCL.
  - (ii) PCL issued its own 0.5 million shares to old shareholders, the fair value of PCL shares at the date of acquisition was Rs. 30 per share which has improved to Rs. 39 per share by the current reporting date.
  - (iii) PCL agreed to pay Rs. 5 million to the old shareholders of SCL if the earning per share of SCL remains above Rs. 2 per share for five years after the date of acquisition. The fair value of this consideration at the date of acquisition was Rs. 2 million and by the current reporting date this has improved to Rs. 2.2 million. PCL has not yet recorded the change in fair value of this consideration.

Contd. on back

- **Fair value of net assets**
  - (i) The share capital and reserves at the date of acquisition were Rs. 10 million divided into 1 million share of Rs. 10 each and 2.20 million respectively at the date of acquisition.
  - (ii) The fair value of a plant at the date of acquisition exceeded its carrying value by Rs. 2.5 million with remaining useful life of five years. The group follows the straight line method of depreciation on its property, plant and equipment.
  - (iii) The fair value of inventory exceeded its carrying value by Rs. 0.5 million and fully sold out before the end of current year.
  - (iv) The fair value of one share of SCL was Rs. 27.5 at the date of acquisition which has reduced to Rs. 10.5 by the end of current year.
  - (v) An intangible asset not recognized by SCL identified at the date of acquisition having fair value of Rs. 2.5 million and remaining useful life of 5 years.

2) During the year SCL declared 10% interim dividend which was duly recognized by both companies.

3) PCL sold goods costing Rs. 10 million to SCL at markup of 20% of which 30% remained unsold at the year end.

4) SCL sold goods to PCL Rs. 5 million on July 01, 2017 which were recognized by PCL as property, plant and equipment. The margin charged by SCL was 20% and PCL calculated the remaining useful life of 4 years at the time of recognition.

5) The group has the policy of measuring Non-controlling interest (NCI) at fair value.

6) There has been no indication of any impairment loss on goodwill.

Required:

a) Calculate the value of goodwill at the date of acquisition. **08**

b) Prepare Statement of Comprehensive Income for the year ended December 31st, 2017. **15**

c) Calculate value of NCI at the reporting date. **04**

Q.2. An entity has been in the business of construction for last many years and at the start of current year the company entered into a contract for construction of a building for one of its old clients. The customer paid immediately Rs. 15 million to the entity as full and final payment. The building will take one and half year to complete and control will be transferred at the time of completion. The entity incurred Rs. 7.55 million cost of construction till the year end. The entity uses 12.5% discount rate for its present value calculations.

Required:

Prepare relevant extract of Statement of Financial Position and Statement of Comprehensive Income for first year of contract. **12**

Q.3. A fraud has been detected during the current year regarding the pilferage of stock for last three years. It has been estimated that goods valuing Rs. 4.5 million have been missing at the start of current year but no year specific information is available. The tax rate has been 32% at the start of current year.

Required:

Discuss the Accounting Treatment of above and pass necessary double entries. **04**

Contd.….

Q.4. XYZ Limited has the following balances at December 31st, 2017

Income Statement for the year ended December 31st, 2017

	2017 Rs. (000)	2016 Rs. (000)
Profit before tax	6,275	4,250
Tax Expense	(825)	(350)
Profit after tax	5,450	3,900

The following further information is also available: -

i) The company has taken a loan of Rs. 0.8 million at the start of year 2015 specifically to finance a qualifying asset @ 15% per annum and fully expensed out the borrowing cost. The asset was completed at the start of current year with a total cost of Rs. 5.5 million excluding borrowing cost and having remaining useful life of 10 years. The taxation authorities allow interest expense in the year in which it is incurred. The tax rate has been 30% for all the tax years.

ii) The company had successfully developed an intangible asset at the start of year 2017 but fully expensed out the cost to profit or loss account in the year 2016. The cost of intangible asset was Rs. 1 million having remaining useful life of 20 years. The taxation authorities allow expense in which it is incurred.

Required:

Prepare Statement of Comprehensive Income in comparative after making adjustments of above errors/omissions. **15**

Q.5. The company has incurred a loss during the year and business plan has not worked as expected, the management has heard that in such situation impairment test to be applied under IFRS. The carrying value of assets at the end of the year are as under: -

	Rs. (000)
License	5,225
Office equipment	4,500
Office furniture	3,600
Inventory of recording material	2,300
Total	15,625

The further, notes are also relevant: -

- Another company has offered to purchase license at Rs. 5.0 million and net realizable value of inventory is Rs. 2 millions.
- The value in use is Rs. 12.5 millions and value in sale of total business is not available.

Required:

Calculate Impairment Loss and allocate the Impairment Loss to relevant assets. **12**

Q.6. The management of a company has decided to review the possible implications of new IFRS-15 (Revenue from contracts with customers) on its revenue recognition. You being the IFRS expert are required to identify the possible implications. The following are the current revenue recognition policies:-

a) The company also sells goods along with free maintenance services for two years and recognize revenue for sale of goods and book a provision under IAS-37, for free maintenance services (Provisions, contingent liabilities and contingent assets). The company also sells maintenance services separately.

Contd. on back

b) The company has internally developed a computer software. The company sells its license and provides customization services according to the requirements of the client. The license is not sold separately from customization services. Currently the company recognizes revenue separately for license and customization services separately.

Required:

Discuss the revenue recognition under IFRS-15 (Revenue from contracts with customers) and with respect to above and identify the change in revenue recognition policies. **15**

Q.7. During the finalization of the accounts of a company you came across the following:

- The management of the company has decided to discontinue one of the location of the company and pay termination benefits to employees working in that location. However, the decision was made public after the reporting date but before the authorization date of Financial Statements.
- The Government changed the tax rates for future years in the budget before the yearend but the deferred tax liability is still appearing at the old rates of tax.
- The company has entered into a contract to purchase fixed asset before the yearend but the delivery was made after the year end. However, the company has recorded the asset and payable in its Financial Statements.
- The dividend declared before the yearend but only disclosed in the Financial Statements. Bonus issue declared after the yearend has been recorded in the Financial Statements.
- The replacement cost of raw material to be used by the company in one of its products has been declined significantly however, the net realizable value of finished goods is still above its cost.

Required:

Discuss the implications of above conditions/events on the Annual Financial Statements of the company. **15**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate|AGP|PG|PUBLIC Sectors

Management Accounting (08.05.2018)

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. List any FIVE advantages of using Management Accounting for an organization. **05**

Q.2. Rehbar Company contemplates replacement of one of its Machinery with new Equipment. The annual cost of operating the Machinery is Rs. 138,600 without taking into consideration the accounting depreciation. The estimated operating cost of new Machinery in the market is Rs. 91,800.

Cost of the new equipment, company wants to buy is Rs. 160,000 which is net of the trade-in allowance, the useful life of this equipment is estimated to be 8 years with no salvage value. Assumption is to be made that income tax rate is 50% and cost of capital is 8%. Company uses straight-line depreciation method and the annual depreciation charge is Rs. 20,000. The book value of the old machine is zero.

The present value factors at different cut of rates are given below:

Year	8%	12%	13%	14%	15%
1	0.9259	0.8929	0.8850	0.8772	0.8696
2	1.7833	1.6901	1.6681	1.6467	1.6257
3	2.5771	2.4018	2.3612	2.3216	2.2832
4	3.3121	3.0373	2.9745	2.9137	2.8550
5	3.9927	3.6048	3.5172	3.4331	3.3522
6	4.6228	4.1114	3.9975	3.8887	3.7845
7	5.2063	4.5638	4.4226	4.2883	4.1604
8	5.7466	4.9676	4.7988	4.6389	4.4873

Required:

Calculate the following:

(a) Payback Period 05

(b) Net Present Value and Net Present Value Index 05

Q.3. Explain briefly the following terms, which are associated with a budgetary control system:

(a) Flexible Budgeting **05**

(b) Zero-base Budgeting **05**

Q.4. ABC Company, is located in Pakistan, and is involved in manufacturing a component used in Farm Machinery. The company's fixed costs are Rs. 4,000,000 per year. The variable cost of each component is Rs. 2,000, and the components are sold for Rs. 3,000 each. The company sold 5,000 components during the year.

Contd. on back

Required:

a) Compute the Break-Even Point in units **04**

b) What will be the new break-even point if fixed costs increase by 10 percent? **04**

c) What was the company's net income for the prior year? **04**

d) The sales manager believes that a reduction in the sales price to Rs. 2,500 will result in orders for 1,200 more components each year. What will the break-even point be if the price is changed? **04**

e) Should the price change discussed in requirement **(d)** be made? **04**

Q.5. The Jamal Corporation manufactures a highly specialized alloy used in missile skins. Rising materials costs led the company to adopt the LIFO method for inventory costing. In 2017 the company produced 702,000 kgs of alloy. New government contracts and other new business should increase volume by about 30%. In spite of increased costs, management felt that it could reduce the sales price from Rs. 12.30 per kg in 2017 to Rs. 11.40 in 2018 and still maintain the same rate of return on capital employed. However, prices of basic raw materials climbed higher than expected and the desired return and profit did not materialize.

Data available is as below:

	2017 (Rs.000)	2018 (Rs.000)
Sales	8,450	8,550
Costs of goods sold and commercial expenses	7,370	7,931
Net income	901	896
Cash	1,200	500
Accounts receivable	1,000	1,000
Inventories	1,750	2,300
Non-current assets	6,650	7,400

Required: **15**

Calculate:

a) Actual rate of return on capital employed for the past two years.

b) Minimum price that the company should have charged.

Q.6. Cadex Industries received an order for a piece of special machinery from JBS Company. Just as Cadex completed the machine, JBS Company declared bankruptcy, defaulted on the order, and forfeited the 10 percent deposit paid on the selling price of Rs. 72,500.

Cadex's manufacturing manager identified the costs already incurred in the production of the special machinery for JBS Company to be as follows:

	(Rs.)	(Rs.)
Direct material	-	16,600
Direct labor	-	21,400
Manufacturing overhead applied: Variable	10,700	-
Fixed	5,350	16,050
Fixed selling and administrative costs	-	5,405
Total	-	**59,455**

Contd……..

Another company, Kaka Bawa Corporation, will buy the special machinery if it is reworked to Kaka Bawa's specifications. Cadex Industries offered to sell the reworked machinery to Kaka Bawa as a special order for Rs. 68,400. Kaka Bawa agreed to pay the price when it takes delivery in two months. The additional identifiable costs to rework the machinery to Kaka Bawa's specifications are as follows:

	(Rs.)
Direct material	6,200
Direct labor	4,200
Total	**10,400**

A second alternative available to Cadex's management is to convert the special machinery to the standard model, which sells for Rs. 62,500. The additional identifiable costs for this conversion are as follows:

	(Rs.)
Direct material	2,850
Direct labor	3,300
Total	**6,150**

A third alternative for Cadex Industries is to sell the machine as is for a price of Rs. 52,000. However, the potential buyer of the unmodified machine does not want it for 60 days. This buyer has offered a Rs. 7,000 down payment, with the remainder due upon delivery.

The following additional information is available regarding Cadex's operations.

- The sales commission rate on sales of standard models is 2 percent, while the rate on special orders is 3 percent.
- Normal credit terms for sales of standard models are 2/10, net/30. This means that a customer receives a 2 percent discount if payment is made within 10 days, and payment is due no later than 30 days after billing. Most customers take the 2 percent discount. Credit terms for a special order are negotiated with the customer. (You need to consider this in your calculations)
- The allocation rates for manufacturing overhead and fixed selling and administrative costs are as follows:

Manufacturing costs:

– Variable	50% of Direct-Labor Cost
– Fixed	25% of Direct-Labor Cost
– Fixed selling and administrative costs	10% of the total of Direct-Material, Direct-Labor, and Manufacturing-Overhead Costs.

- Normal time required for rework is one month.

Required: **25**

a) Determine the rupees contribution each of the three alternatives which will add to Cadex Industries' before-tax profit.

b) If Kaka Bawa makes Cadex Industries a counteroffer, what is the lowest price Cadex should accept for the reworked machinery from Kaka Bawa? Explain your answer.

c) Discuss the influence fixed manufacturing-overhead cost should have on the sales price quoted by Cadex Industries for special orders.

Contd. on back

Q.7. Product **A** and **B** are produced in a joint process. At split-off point, Product **A** is complete whereas Product **B** can be processed further. The following additional information is available:

Product	A (Rs.)	B (Rs.)
Quantity in Units	10,000	20,000
Selling Price Per Unit:	-	-
At Split-Off	20	5
If Processed Further	-	10
Costs After Split-Off	-	40,000

Required:

Perform sell-or-process-further analysis for Product **B**. **15**

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Pakistan Institute of Public Finance Accountants

Summer Exam-2018

Corporate Sector

Audit, Assurance & Ethics (09.05.2018)

Marks-100 **Duration: 3 hrs**

Additional time – 15 min for Paper Reading

[Instructions]

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

Attempt all Questions

Q.1 You are Audit Manager carrying out Audit of Krypton Steel (Private) Limited for the year ended June 30th, 2017. Krypton Steel is involved in manufacturing of steel products and audit of the company is finalized by the audit team for review purpose and you as a manager in charge while reviewing the initial work performed by audit team has come to the following scenario detailed as under;

a) The quantity of material scrapped during the year is materially different from the quantity of scrap sold. The company's records show nil balance both at the beginning and at the close of the year. No reconciliation for the difference has been provided by the company.

b) Sales for the year have increased by 7% over the previous year. However, it has been noted that sales in the last two weeks of June 2017 have been exceptionally high and represent 15% of the annual sales. The audit working papers carry the following observations in respect of the above:

- 70% of the sales in the last two weeks of June were made to two new customers whose credit assessment has not been formally documented;
- A significant portion of the goods sold to the above referred customers were returned in the first week of July 2017; and
- Managing bonuses are linked to the operating performance of the company.

c) During the year, Krypton Steel (Private) Limited purchased a machine for Rs. 50 million. The payment voucher is duly supported by the invoice from the supplier. However, the fixed assets schedule provided by the client shows the amount capitalized as Rs. 5 million is appearing in the Bank Reconciliation Statement.

Required:

(a) Analyze each of the above situations and assess whether it represents a fraud or an error? **06**

(b) What action would you take to deal with the above matters? **06**

Q.2 **(a)** Discuss the differences between sampling risk and non-sampling risk. What steps an auditor should take to reduce such risks? **06**

(b) Briefly describe how an auditor evaluates the sufficiency of audit evidence? **04**

(c) Explain why and under what circumstances an auditor may decide to use negative confirmation requests. Also, identify the circumstances where the auditor may use a combination of positive and negative confirmations. **04**

Contd. on back

Q.3 **(a)** Materiality has been defined as any misstatement or omission that may affect the economic decision of the users of the financial statements. There may be hundreds of users of various capabilities and competence. **04**

State which users the auditor should consider in such evaluation.

(b) Net profit of Reed Ltd. for year ended December 31st, 2017, after charging remuneration of CEO Rs. 10.4 million amounted to Rs. 1800 million you have noted that the director has charged personal travelling expenses amounting to Rs. 2 million to business expense. **04**

What will be the impact on audit report?

Q.4 **(a)** ISA 210 **"Agreeing the terms of audit engagements"** deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. **06**

Explain the pre-conditions of an audit as per ISA 210.

(b) Define written representation and discuss the objectives of written representations. **03**

Q.5 Henna is a manufacturing company. Its production, warehouses and head office buildings are situated on a single site. The purchase and accounts departments are located in the head office building.

Following a restructuring of the board of directors, significant control deficiencies in the Purchase and Trade payables system have been identified by the internal audit department.

It has also been reported that supplier statements are not used to support other controls within the system.

A 'batch entry batch processing system' is used throughout the company's accounting system. The term 'batch entry batch processing system' is used to describe a computer-based accounting system, through which data is entered and processed in separate batches.

(a) Explain why it is important to have sound internal controls in a Purchases and Trade Payables system. **04**

(b) Identify the internal controls that should exist in Henna over the following:

(i) Purchase Requisitioning and authorization-THREE controls to be identified. **03**

(ii) Receipt of goods from the suppliers-TWO controls to be identified. **02**

(iii) Authorization of purchase invoices before they are batch processed through the computerized accounting system-FOUR controls to be identified. **04**

Q.6 Rehman Co. is a long established building renovations company and prepares its annual Financial Statements to 31st March. The Financial Statements for the year ended 31st March 2018 revealed the following items, together with comparatives for the previous year.

Item	31st March 2018 (Rs.)	31st March 2017 (Rs.)
Irrecoverable debts (bad debts)	56,000	18,900
Trade payables	315,000	205,200
Accruals	37,800	63,000
Provision	81,000	-

Contd…….

The provision of Rs. 81,000 relates to a legal obligation to carry out repairs to a public building damaged by employees of Rehman Co. when renovating an adjoining building. The company's reported profit before tax for the year ended 31st March 2018 was Rs. 990,000.

Required:

(a) For each of the items set out above, list **TWO** substantive procedures that the auditor of Rehman Co. should carry out to verify the completeness and valuation assertions contained in the Financial Statements of Rehman Co. for the year ended 31st March 2018. **08**

(b) Explain why an auditor may decide **NOT** to carry out a circularization of trade payables. **02**

(c) At the end of your audit work on accruals, you have concluded that the provision should be Rs. 162,000. The management has refused to make this adjustment. Discuss, with reasons, the impact of this on the audit opinion and the audit report. **06**

Q.7 Assume that the date is 25th April 2018.You are completing the audit of FMH, a travel agency which sells adventure holidays to destinations all over the world. The staff interviews the customers and design suitable holidays such as mountain climbing, scuba diving and other similar activities.

The Company's year-end is 31st March. The Financial Statements currently show a profit before tax of Rs.754,000 and total assets of Rs.1,198,000. The audit report is due to be signed on 28th April and the following information has just been brought to your attention.

Event 1
One of the major customers has gone bankrupt. As at 31st March, the customer owed Rs. 175,000 to FMH for holidays already booked but not paid for. An initial communication from the liquidator indicates that the customer has no assets and the whole of the Rs.175,000 debt is unlikely to be repaid.

Event 2
A hotel used by FMH in the Switzerland was severely damaged by fire in early April. 300 of FMH's customers had to be moved to another hotel. This hotel was of a bad quality and various activities that customers had booked could not take place. No complaint was made at the time by the customers and they completed their holidays without further incident. These customers have now employed a lawyer to claim compensation of Rs. 52,000 from FMH as their holiday was not of the standard expected.

Required:

a) For Event 1:

(i) Explain, with reasons, whether it is adjusting or non-adjusting according to IAS-10 Events after the Reporting Period. If an adjusting event, explain the adjustment. **03**

(ii) Comment on the materiality of the event and its impact. **01**

(iii) Explain **FOUR** audit procedures that should be carried out to form a conclusion on the event. **06**

b) For Event 2:

(i) Explain, with reasons, whether it is adjusting or non-adjusting according to IAS 10 Events after the Reporting Period. If an adjusting event, explain the adjustment. **03**

Contd. on back

(ii) Comment on the materiality of the event and its impact. **01**

(iii) Explain **TWO** audit procedures that should be carried out to form a conclusion on the event. **03**

Q.8 **(a)** Your firm is the auditor of Sun Co. which is a savings and investment company. Sun Co. is regulated by an independent non-governmental body, responsible for regulating the financial services industry.

During last year's audit your firm identified a breach of the financial regulations by Sun Co. and reported it to the regulator without first obtaining the permission from Sun Co.

The Board of Directors of Sun Co. believes that this breaches the auditor's duty of confidentiality and has asked the engagement partner to meet with them to discuss this matter.

Required:

Describe the auditor's responsibility with regard to confidentiality and explain whether your firm has breached their duty of confidentiality in relation to Sun Co. **04**

(b) Raheel has been the engagement partner on the audit of Sun Co. for eleven years. Raheel plays golf with the Finance Director at Sun Co., Bilal Khan every weekend. During a recent golf match, Bilal asked Raheel if the legal department of the firm would be willing to represent Sun Co. in court, to defend an unfair dismissal claim that has been brought by an ex-employee. If the claim is successful, the amount owed would be material in relation to the financial statements of Sun Co.

Bilal's daughter has recently joined your audit firm as an audit trainee and has asked if she could join the audit team for Sun Co. as she wants to help her father in his business.

The Finance Director has recommended to the audit committee of Sun Co. that this year's audit fee should be based on the company's profit before tax.

Required:

Explain **FIVE** ethical threats which may affect the independence of the auditors in respect of the audit of Sun Co. and for each threat explain how it may be reduced. **07**

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