Gateway for ICAP Students

(For ICAP Students Passed up to CA Inter/Module-D/CAF)

Financial Reporting

MCQs/MTQs	25 Mins	25
Short Questions	65 Mins	25

Pakistan Institute of Public Finance Accountants
SAMPLE PAPER
GATEWAY Exam – Financial Reporting

All Questions are compulsory.

Objective Part – A [2 marks each]

1. At 31st October 20X5 the capital structure of a company was as follows:

Ordinary share capital

36,000 shares of Rs. 5/- each	Rs. 180,000/-
Share premium account	Rs. 130,000/-

During the year ended 31 October 20X6, the company made a bonus issue of 2 shares for every 3 held, using the share premium account for the purpose, and later issued for cash another 7,500 shares at Rs. 8/- per share.

What is the company's capital structure at 31 October 20X6?

	Ordinary Share Capital Rs.	Share Premium Account Rs.
a)	180,000	130,000
b)	217,500	152,500
c)	337,500	32,500
d)	487,500	Nil

Correct Answer
Option C

Working for understanding

	Rs.
BONUS ISSUE	
Number of shares issued in bonus issue (36,000 x 2/3)	24,000
Increase in share capital (24,000 x Rs.5/-)	120,000
Decrease in share premium	120,000
RIGHT ISSUE	
Share capital (7,500 x Rs. 5/-)	37,500
Share premium (7,500 x Rs. 3/-)	22,500
Share capital at 31 October 20X6 (180,000+120,000+37,500)	337,500
Share premium at 31 October 20X6 (130,000-120,000+22,500)	32,500

2. The following information is relevant to Banaspati:

	Rs.
Purchases	560,000
Opening inventory	120,000
Closing inventory	136,000
Administration expenses	210,000
Distribution expenses	196,000
Depreciation	88,000
Carriage inwards	54,000
Carriage outwards	48,000
Audit fee	41,000

Banaspati's 25% depreciation relates to its factory, 60% to office and rest to distribution vehicles.

What is the cost of sales of Banaspati?

Rs. ____________

Correct Answer
Rs. 620,000

Working for understanding

	Rs.
Opening inventory	120,000
Purchases	560,000
Closing inventory	(136,000)
Carriage inwards	54,000
Depreciation (88,000 x 0.25)	22,000
Total	**620,000**

3. Identify which TWO of the following are TRUE accounting treatments when recognizing an acquisition of a subsidiary:

i) Contingent consideration must be measured at fair value at the time of business combination
ii) Bargain purchase gain should be debited to statement of profit or loss
iii) Consolidation is done on the basis of accounting concept of substance over form
iv) All acquisition costs including the expenses directly related to the acquisition must be accounted for within equity

a) i) & ii)
b) i) & iii)
c) ii) & iv)
d) iii) & iv)

Correct Answer
Option B

4. Pitcher acquired 75% share capital of Spoon on 1 April 20X6. Following are the extracts of statement of profit or loss for both companies for the year ended 30 September 20X6.

	Pitcher Rs.	Spoon Rs.
Revenue	85,000	40,700
Cost of sales	(57,400)	(19,700)
Gross profit	27,600	21,000

Pitcher sold goods to Spoon for Rs. 16,000/- throughout the year. Pitcher made a gross profit of 30% on these sales. Unrealised profit on this inventory of Spoon at 30 September 20X6 was Rs. 1,200/-. The inter-company sales accrued evenly throughout the year.

What will be the value of consolidated gross profit for the year ended 30 September 20X6?

a) Rs. 36,900
b) Rs. 38,100
c) Rs. 48,600
d) Rs. 58,050

Correct Answer
Option A

Working for understanding

	Rs.
Revenue [85,000 + (40,700 x 6/12) – (16,000 x 6/12)]	97,350
Cost of sales [57,400 + (19,700 x 6/12) – 8,000 + 1,200	(60,450)
Gross profit	**36,900**

5. Sarmad Co. owns a building with depreciation on a straight-line basis and no residual value:

Estimated useful life at acquisition	10 years
	Rs. 'million'
Cost on 1 February 20X4	300
Accumulated depreciation (three years)	90
Revaluation on 1 February 20X7:	
Revalued amount	240
Revised estimated remaining useful life	5 years

What will be the carrying value of machinery to be shown in statement of financial position of Sarmad Co. at 31 January 20X8?

- **a)** Rs. 180 million
- **b)** Rs. 192 million
- **c)** Rs. 205.72 million
- **d)** Rs. 240 million

Correct Answer
Option B

Working for understanding

	Rs. million
Carrying value at 1 February 20X7	210
Revalued value at 1 February 20X7	240
Depreciation for the year ended 31 January 20X8 (240/5)	48
Carrying value at 31 January 20X8 (240 – 48)	**192**

6. Aircel Co. bought a license from the government on 1 January 20X5 for Rs. 650 million and it has a 10 year life. It is amortized on a straight line basis. In December 20X6, a review of the sales of the products related to the license showed them to be very disappointing. As a result of this review the estimated recoverable amount of the license at 31 December 20X6 was estimated at only Rs. 475 million.

What will be the impairment charge to statement of profit or loss for Aircel Co. for the year ended 31 December 20X6?

- **a)** Rs. 45 million
- **b)** Rs. 65 million
- **c)** Rs. 110 million
- **d)** Rs. 175 million

Correct Answer
Option B

Working for understanding

Amortization per year (650/10)	= Rs. 65 million
Carrying value at 31 December 20X6 [650 - (65*2)]	= Rs. 520 million
Recoverable value	= Rs. 475 million
Impairment (520 – 475)	= Rs. 45 million

7. Prisma Co. requires a provision for current tax for the year ended 31 October 20X6 of Rs. 5·6 million. There was an over provision of Rs. 0.7 million of the current tax liability and a deferred tax liability of Rs. 4.8 million for the year ended 31 October 20X5. At 31 October 20X6, the tax base of Prisma's net assets was Rs.14 million less than their carrying amounts. The income tax rate of Prisma is 25%.

What will be the charge to Prisma's statement of profit or loss for income tax expense for the year ended 31 October 20X6?

- **a)** Rs. 1.3 million
- **b)** Rs. 4.9 million
- **c)** Rs. 6.2 million
- **d)** Rs. 7.6 million

Correct Answer
Option C

Working for understanding

	Rs. million
Current tax charge (5.6 – 0.7)	4.9
Opening deferred tax liability	4.8
Closing deferred tax liability (14*0.25)	3.5
Deferred tax charge (4.8 – 3.5)	1.3
Total charge to P&L (4.9 + 1.3)	**6.2**

8. Fizdrink Co. has a claim on it from an employee for wrongful dismissal. The lawsuit was filed in January 20X7. The initial estimated outcomes by Fizdrink's legal advisors are as follows:

15% chance of no damages awarded
65% chance of damages of Rs. 5 million
20% chance of damages of Rs. 8 million

What is the provision which Fizdrink would report in its statement of financial position as at 30 April 20X7 in respect of the lawsuit?

a) Rs. 8 million
b) Rs. 4.85 million
c) Rs. 5 million
d) No provision required

<u>**Correct Answer**</u>
Option C

For the lawsuit the most probable single likely outcome is normally considered to be the best estimate of the liability, i.e. Rs. 5 million..

9. On 1 July 20X7, Crisps Co. entered into an agreement to finance lease a specialist plant from the manufacturer for Rs. 1,200,000. The lease required four annual payments in advance of Rs. 300,000 each commencing on 1 July 20X7. The plant would have a useful life of four years and would be scrapped at the end of this period. The lease has an implicit rate of 9%

What amount of finance cost would be charged to Crisps' statement of profit or loss for the year ended 31 March 20X8?

a) Rs. 108,000
b) Rs. 81,000
c) Rs. 60,750
d) Rs. 54,000

<u>**Correct Answer**</u>
Option C

Working for understanding

Cost	1,200,000
Deposit	(300,000)
	900,000
Finance cost (900,000*9%*9/12)	**60,750**

10. On 1 July 20X5, Usman had capitalized development expenditure related of Rs. 640,000. During the year, further costs of Rs. 90,000 were incurred on the project before its completion on 31 January 20X6. Production and sales of the new product commenced on 1 March 20X6 and are expected to last 25 months.

What will be the value of intangible asset to be shown in Usman's statement of financial position at 30 June 20X6 under IAS 38?

Rs. ___________

Correct Answer
Rs. 613,200

Working for understanding

	Rs.
Total cost (Rs. 640,000 + 90,000)	= 730,000
Amortization 730,000 x 4/25	= 116,800
Carrying value (730,000 – 116,800)	= 613,200

Pakistan Institute of Public Finance Accountants
SAMPLE PAPER
GATEWAY Exam – Financial Reporting

Objective Part – B [1 mark each]

11. Which of the following is NOT a change in accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*?

a) Changing inventory valuation method from FIFO to AVCO
b) Shifting from cost model to revaluation model in subsequent measurement under IAS 16
c) Changing the value of a subsidiary's inventory in line with the group policy for inventory valuation when preparing the consolidated financial statements
d) The depreciation of the production facility has been reclassified from administration expenses to cost of sales in the current and future years

Correct Answer
Option C

12. Which of the following events which occur after the reporting date of a company but before the financial statements are authorised for issue is classified as ADJUSTING event in accordance with IAS 10 *Events after the Reporting Period*?

a) Announcement by the company of plan to discontinue an operation
b) A right issue of shares
c) A change in tax rate announced after the reporting date, but affecting the current tax liability
d) The determination of the sale proceeds of an item of plant sold before the year end

Correct Answer
Option D

13. Identify which of the following statements are TRUE as per IFRS 8?

i) The chief operating decision maker is the individual, or group of individuals, who makes decisions about segment performance and resource allocation
ii) Two or more operating segments below the thresholds may be aggregated to produce a reportable segment
iii) At least 70% of total external revenue must be reported by operating segments. Where this is not the case, additional segments must be identified (even if they do not meet the 10% thresholds)

a) i) & ii)
b) ii) & iii)
c) i) & iii)
d) none of the above

Correct Answer
Option A

14. Which of the following is NOT a qualifying asset under IAS 23 *Borrowing costs*?

a) Intangible assets during development period
b) Inventories manufactured in large quantities on repetitive basis
c) Investment property during construction period
d) Made-to-order inventories

Correct Answer
Option B

15. The guidance in IAS 38 *Intangible Assets* under recognition and initial measurement of intangible assets takes account of the way in which an entity obtained the asset.
Identify which of the following methods are allowed by IAS 38 for recognition of intangible assets in a business?

i. They are purchased separately from other assets
ii. They are obtained as part of acquiring the whole of a business
iii. They are developed internally
iv. They are acquired by way of a government grant

a) i), ii) & iii)
b) ii), iii) & iv)
c) i) , ii) & iv)
d) All of them

Correct Answer
Option D

_****************************_

Pakistan Institute of Public Finance Accountants
SAMPLE PAPER
GATEWAY Exam – Financial Reporting

Subjective Part

Question-1:

On 1 February 20X6 Primer began the construction of a new property. Purchase of land for the construction of building cost Rs. 45 million. Cost of leveling the land prior to beginning construction was Rs. 100,000. A borrowing cost of Rs. 2.5 million was incurred on the loan for construction of this property.
Cost of materials needed to construct the property was Rs. 12 million. Monthly labour costs of the construction staff were Rs. 700,000. Payments to professional advisors relating to the construction were of Rs. 300,000. Primer had to incur a cost of Rs. 590,000 for relocating the staff to work in the new building.
Primer earned an income of Rs. 410,000 from temporary use of part of the site as a car park during the construction period. Construction work was suspended for a month because of bad weather condition and some unforeseen power generation issue.

Required:
Calculate the total cost of property of Primer when the construction is completed on 31 December 20X6. **(8 marks)**

Ans-1

	Rs. Million
Cost of land	45
Cost of leveling the land	0.1
Borrowing cost	2.5
Cost of materials in construction	12
Labour cost (0.7*10)	7
Payment to professional advisors	0.3
TOTAL	**66.9**

Cost of relocation of employees and income from temporary use will not be adjusted in the cost of asset.

Question-2:

Pharma is a listed entity preparing its financial statements for the year ended 31 March 20X8.

On 1 October 20X6 Pharma began a project to find a new vaccination. Expenses relating to the project of Rs. 4 million were charged in the statement of profit or loss in the year ended 31 March 20X7. Further costs of Rs. 3 million were incurred in the three-month period to 30 June 20X7. On that date it became apparent that the project was technically feasible and commercially viable.

Further expenditure of Rs. 6 million was incurred in the six-month period from 1 July 20X7 to 31 December 20X7. The production of the new product, which began on 1 January 20X8, was expected to generate revenue of at least Rs. 1.2 million per annum over the 10-year period commencing 1 January 20X8.

Required:

Calculate the impact of the above transactions on financial statements of Pharma for the year ended 31 March 20X8. **(7 marks)**

Ans-2

As per IAS 38 *Intangible Assets*, only costs incurred after the conditions have been satisfied can be capitalized. Therefore, the development cost capitalized in this case will be Rs. 6 million. All previous costs must be expensed to statement of profit or loss, even those arising earlier in the same accounting
period.

Amortization of the capitalized costs begins when the commercial production of the product begins. In this case, amortization of only three months will be charged as commercial production began on 1 January 20X8. A full years charge would be Rs. 600,000 (6 million/10). The charge in the year ended 31 March 20X8 is Rs. 150,000 (600,000 x 3/12).

The carrying value at the 31 March 20X8 will be calculated by deducting accumulated amortization from the cost of development expenditure. The working would be as follows:

Carrying value in statement of financial position	= Cost less Accumulated amortization
	= 6,000,000 – 150,000
	= Rs. 5,850,000

The relevant expenses to be shown in statement of profit or loss for the year ended 31 March 20X8 are as follows:

Research expense	= Rs. 3,000,000
Amortization expense	= Rs. 150,000

Question-3:

During the year ended 30 June 20X6, Belta sold a specialist machinery to a customer that proved to have a manufacturing fault. The customer has returned the machine to Belta and demanded repayment of the purchase price of Rs. 7 million plus compensation for lost sales of Rs. 600,000. It is highly likely that Belta will make this payment in September 20X6. The directors of Belta consider it probable that the Rs. 5·9 million of the above amount can be recovered from the original manufacturer of the machine and this amount could reasonably be expected to be received in November 20X6.

Required:

Explain how both the claim and the counter-claim will be treated in the financial statements of Belta for the year ended 30 June 20X6. **(5 marks)**

Ans-3

The international financial reporting standard that is relevant to this issue is IAS 37 – *Provisions, contingent liabilities and contingent assets*. The amount payable by Belta to the customer of Rs. 7.6 million should be recognized as a provision in the statement of financial position at 30 June 20X6. The obligating event is the sale of goods under the warranty. There is a probable outflow of economic benefits that can be reliably estimated.

Rs. 5.9 million, the amount potentially recoverable from the manufacturer, is a contingent asset which should not be recognized in the financial statements unless the recovery is virtually certain. Where (as in this case) the recovery is probable the contingent asset should be disclosed in the notes to the financial statements.

Question-4:

Define an operating segment as per IFRS 8 *Operating segments*. List the criteria for aggregating two or more operating segments. **(5 marks)**

Ans-4

Definition

a) An *operating segment* is a component of an entity:
b) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
c) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Aggregation criteria

Two or more operating segments may be aggregated if the segments have similar economic characteristics, and the segments are similar in **each** of the following aspects:

a. The nature of the products or services;

b. The nature of the production process;

c. The type or class of customer for their products or services;

d. The methods used to distribute their products or provide their services; and

e. If applicable, the nature of the regulatory environment.

Gateway for ICAP Students

(For ICAP Students Passed up to CA Inter/Module-D/CAF)

Management Accounting

MCQs/MTQs	25 Mins	25
Short Questions	65 Mins	25

Pakistan Institute of Public Finance Accountants
SAMPLE PAPER
GATEWAY Exam – Management Accounting

<u>All Questions are compulsory</u>.

Objective Part – A [2 marks each]

1. Company is considering a construction contract which would require 500 tonnes of Cement and 600 tonnes of Concrete. Stock situation is as follows:

Material Type	Stock in Hand (tonnes)	Book Value (Rs.'000)	Realizable Value (Rs.'000)	Repurchase Price (Rs. / unit)
Cement	1000	5000	3500	5
Concrete	400	4500	4000	3
Steel	350	2000	1500	4

Cement is being regularly used by the company on their other contracts. Concrete has no further use in other contracts.

What is the Relevant Cost of the Material for the contract in consideration?

- **a.** Rs.7500
- **b.** Rs.7,100,000
- **c.** Rs.5,000,000
- **d.** Rs.7,100

Correct Answer
Option B

2. An investment banker is considering mutually exclusive projects and needs to decide which one will better serve the Maximization of Wealth criteria for the investors. The company's WACC (Weighted Average Cost of Capital) is 15%, which reflects the risk attached to these investments. Only the IRR of the individual projects are known as of this moment.

Project Name	**IRR (Internal Rate of Return)**
Project ARI	12%
Project MSA	14%

Which Project should the investment banker choose considering IRR only?

a. Project MSA
b. Both of them
c. Project ARI
d. Neither of them

Correct Answer
Option D

3. CEO of Bee Limited has been asked to respond to the loss in one of the factory and the situation has got to this point that a full closure of that factory is being considered. There are three factories operating and one of them is loss making. Which cost classification will be able to help the CEO make this tough decision?

a. Direct & Indirect
b. Variable & Fixed
c. Controllable & Uncontrollable
d. Product & Period

Correct Answer
Option C

4. Aged Debtor Analysis of a company shows the following results in relation to how Debts are cleared by their customers.

50% pay in the month of Sale
30% pay in the month following that of Sale
10% pay in the second month after Sale
10% of Sale is never recovered

Company offers a 10% settlement discount to anyone who pays in the same month as that of Sale. Sales information for the forthcoming quarter is as follows:

Month	**Sale Value (Rs.)**
October	50,000
November	100,000
December	60,000

What is the forecast Cash Receipts from Debtors in the month of December considering the trend in Aged Debtor Analysis will continue?

a. Rs.57,000
b. Rs.65,000
c. Rs.70,000
d. Rs.62,000

Correct Answer
Option D

5. There are two popular methods to measure the divisional performance namely ROCE (Return on Capital Employed) and RI (Residual Interest). Which of them should be used to compare two projects with different levels of investment?

a. ROCE
b. Both of them
c. RI
d. Neither of them

Correct Answer
Option A

6. A company produces a product called Mazer and the competition has risen in the market, making the company to consider closing down Mazer's production and moving to some other product. To make this decision they would like to know the margin of safety in units from the current level of sales which is 5000 units. Fixed Cost of the company is Rs.10,000 and Contribution per unit is calculated as Rs.4.

What is the Margin of Safety in units?

a. 500
b. 5000
c. 2500
d. 1000

Correct Answer
Option C

7. The performance of the Budget making team is to be measured so that the bonuses could be given to them. The Director however is unsure how this needs to be done. Which of the two needs to be compared in order to achieve the objective?

a. Fixed & Flexed Budget
b. Fixed Budget & Actual Results
c. Flexed Budget & Actual Results
d. Flexible Budget & Fixed Budget

Correct Answer
Option B

8. Siddiqui & sons is a luxury shoe making brand which specializes in making unique styles for its customers. The target market of the business is a very niche one and the competition is near to none because of the unavailability of highly skilled craftsmen who make the shoes by hand for that added perfection. Suggest which is the best pricing policy for the business in order to maximize profits?

a. Marginal Cost Pricing
b. Price Skimming
c. Price Discrimination
d. Price Penetration

Correct Answer
Option B

9. Company is considering a new project which will increase the productivity of the existing plant but have to make the decision of how to raise finance for the purpose. The company's profitability is not as good in comparison to the industry and wants to raise finance through a source cost of which is relative to the profits company makes in future. How should the company raise its finance for the Project?

a. Loan from Directors (5% interest p.a)
b. Bank Loan (8% interest p.a)
c. Right Issue of Ordinary Shares
d. Issue of Debentures (10% interest p.a)

Correct Answer
Option C

10. A company is considering a decision of whether to make a product or buy it from a supplier but is unsure on what to base this decision on. Labour is in limited supply however material is in limited supply. Which of the following is used to make the decision of Make or Buy?

a. Excessive cost per material (Rs./kg)
b. Contribution per material (Rs./kg)
c. Excessive cost per labour hour (Rs./hr)
d. Contribution per labour hour (Rs./hr)

Correct Answer
Option A

Pakistan Institute of Public Finance Accountants
SAMPLE PAPER
GATEWAY Exam – Management Accounting

Objective Part – B [5 marks]

Multiple Task Question (MTQs)

Company's Financial Statements extracts show the following information:

Statement of Financial Position

		Rs.
Non-current Assets		
Property, Plant & Equipment		500,000
Current Assets		
Inventory		25,000
Cash and Cash Equivalents		15,000
Total Assets	=	**540,000**
Equity		
Ordinary Share Capital		450,000
Current Liabilities		
Payables		30,000
Non-current Liabilities		
Debentures (10% interest p.a)		60,000
Total Equity and Liabilities	=	**540,000**

Statement of Profit and Loss

	Rs.
Revenue	650,000
Less Cost of Sales	(400,000)
Profit before Interest and Tax	250,000
Interest	(6,000)
Profit before Tax	244,000
Tax	(24,000)
Net Profit	220,000

You are the management accountant and are required to calculate the performance of the following ratios (to the nearest whole number) so the directors can use this information for Strategic level decision making and Planning.

				Ans.
1.	Acid Test Ratio	____________________	%	**50%**
2.	Gearing Ratio	____________________	%	**12%**
3.	Interest Cover (times)	____________________	times	**42**
4.	Inventory Turnover (days)	____________________	days	**23**
5.	Payables Turnover (days)	____________________	days	**27**

(1 mark each)

-*******************-**

Pakistan Institute of Public Finance Accountants
SAMPLE PAPER
GATEWAY Exam – Management Accounting

Subjective

Question-1:

Bilal & sons is a construction contractor and specialises in the construction of restaurants. The profitability has been good in the recent years and expanding the customer base is currently sought by the directors as the only way of raising revenue in the industry. We have been approached by a leading restaurant chain in another city who wants to have their own purpose built restaurant in our city, the first in the series of many which they have planned. Directors due to the significance of this project to our business are considering using Relevant Costing to Quote a price to the restaurant chain. The following information is relevant to the project:

1. Ten thousand bags of Cement will be required on the project whereas the company only has five thousand bags of Cement in stock. The repurchase price from market is Rs.5 per bag. Cement is used regularly by the business.

2. Five hundred labour hours will be required on the project and the labour currently has two hundred hours spare capacity. Overtime can be done at the rate of Rs.10 per hour which is double than that of basic rate in normal hours. The workers can also be diverted from another job where they are paid the same basic rate and the contribution earned is Rs.3 per hour.

3. Supervisor will also be required at the project site and would be required to give 3 hours a day. He is currently paid a salary of Rs.25,000 and will be paid an extra Rs.50 per day as travelling expense for the whole project duration that is 200 days.

4. Directors require to make a 25% margin on this Project using the relevant cost.

Required:

Calculate the Relevant Cost of the Project and the Price Quote that Bilal & sons should make. (8 marks)

Marking Scheme

Description	Marks
Cement Relevant Cost (10000 x Rs.5) = Rs.50000	1
Labour Relevant Cost (200 x Rs.0) = 0 Lower off (300 x Rs.10) = Rs.3000 &	1 2

(300 x Rs.(5 + 3) = Rs.2400 Total = 0 + 2400 = Rs.2400	
Supervisor Relevant Cost (Rs.50 x 200) = Rs.10,000	1
Cost Calculation Rs.(50000 + 2400 + 10000) = Rs.62400	1
Price Calculation Rs.(62400 / 75%) = Rs.83200	2
Total	**8**

Question-2:

The company is going through their budgeting phase and the budget manual has been completed. The following information is relevant in the making of the budget, the data is based on the forecast done by the directors.

Two Types of Material is required to produce the company's main product called AZE namely Tee and Dee. There is a Sales Demand of 50000 units of AZE in the market which the company needs to fulfill on its own. The stock situation of both the Materials and Product AZE is given below:

Material Type	Stock in hand (kgs)	Anticipated Closing Stock (kgs)
Tee	5,000	8,000
Dee	4,000	5,000

Product Name	Stock in hand (units)	Anticipated Closing Stock (units)
AZE	800	700

One product of AZE requires 4 kg of Tee and 5kg of Dee.
Purchase Prices Information:

Material Type	Rs. / kg
Tee	4
Dee	2

Required:

1. Calculate the Material Usage Budget
2. Calculate the Material Purchase Budget
3. Explain why this Budget could be different from actual results.

Marking Scheme

Description	**Marks**
1. Material Usage Budget Production (units)= Sales Demand + Closing Stock - Opening Stock = 50000 + 700 - 800 = 49900 units Production Requirement (kgs) Tee = 49900 x 4 = 199600 Dee = 49900 x 5 = 249500	 1 1
2. Material Purchase Budget Purchase = Production Requirements + Closing Stock - Opening Stock (kgs) Purchase (Rs.) Tee = 199600 + 8000 - 5000 = 202600 x 4 = Rs.810,400 Dee = 249500 + 5000 - 4000 = 250500 x 2 = Rs.501,000	3
3. Explanation - Directors might have forecasted wrong making the actual results different - Circumstances in which budgets were made can change in future	 1 1
Total	**7**

Question-3:

A company is considering a project to invest on which will last the next 5 years and has the following cash flows anticipated as of now. They have approached you, the financial consultant to help them with this decision using the Investment Appraisal techniques. They are inclined towards using a Net Present Value approach and are also concerned about being informed about the Time Value of Money concept that NPV approach is based upon.

Year	Cash Flows ('000)
0	(200)
1	50
2	60
3	50
4	70
5	80

The discount factor relevant for this investment is 12%. The investment made in Year 0 will have no residual value at the end of the project.

Required:

1. Explain the Time Value of Money Concept
2. Calculate Net Present Value of the Project
3. Suggest whether the company should accept or reject the project based on your findings in 2.

Marking Scheme

Description	Marks
1. Time Value of Money - Relates to inflation - Things you can buy for in now will cost more later	**1**
2. NPV PV of inflows = 50 x 0.893 + 60 x 0.797 + 50 x 0.712 + 70 x 0.636 + 80 x 0.567 = 44.65 + 47.82 + 35.6 + 44.52 + 45.36 = Rs.217,950	**2**

PV of Outflows = 200 x 1 = Rs.200,000 NPV = PV of Inflows - PV of Outflows = 217950 - 200000 = Rs.17950	**1**
3. Suggestion - If NPV positive in 2 then Yes we should accept the project as NPV is positive and taking the project will result in the increase in shareholder's wealth - If NPV negative in 2 then No we should not accept the project as NPV is negative and taking the project will result in the decrease in shareholder's wealth	**1**
Total	**5**

Question-4:

A successful airline company is deciding to start their operations in the country of X-land and Y-land. The initial feasibility is being worked upon and of the major concern as of this point is that of the pricing of the tickets for inter country flights as this is the point which will leave an impression on the customers as to level of quality the services we can offer.

X-land

X-land is a financially stable country and is currently growing rapidly in terms of urbanization & new businesses pouring in because of it being established as an economic corridor to the major countries besides it. There had been quite some disruption due to the terrorist activity but now as it is resolved, its prominence is getting clearer to businesses around the world. The upper-middle and upper class are mostly consisting of high-level employees and businessmen who are frequent airline users. Currently these customers are not satisfied with the level of service the local airlines are providing and this seems to be a perfect chance for our company to expand in there.

Y-land

Y-land is a country made up of a series of islands and has a growing economy but nowhere near as strong as X-land. Industry is growing and foreigners are the main working force which is supporting the industry with their expertise & knowledge. The government has been giving many subsidies to the businesses who want to expand in the country and have approached our company too. People in Y-land are not financially well-off and do not live luxurious lives but due to the geographical situation of the country most people have to take ferries to other islands (which are limited due to various reasons) or the local airline service which due to monopoly charges quite high for tickets. This means that most of the working class has issues with the current travelling situation.

Required:

The Directors have approached you to explain and suggest the various pricing strategies that the company could use, and what is the best one for each of the country? (5 marks)

Marking Scheme

Description	**Marks**
Pricing Strategies - Price Skimming - Price Penetration - Price Differentiation - Captive Product Pricing - Marginal Cost Pricing (1 mark for any of above if the same used as suggestion too)	**2**
Suggestion - X-land - Price Skimming - Y-land - Price Penetration (1.5 mark for explanation of each)	**3**
Total	**5**