Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate Sector

Business Laws (10.11.2016)

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. a) 'By way of delegated legislation, the chances of arbitrary and irrational decisions increase'. **Argue in rebuttal to this statement.** **06**

b) **X**, was robbed in an abandoned street and went to the police station but the police official refused to register the case. What remedy can be availed by **X. Advise.** **04**

Q.2. Jannat Bibi is a wealthy old widow who owns 3 bungalows in Lahore. Until recently she suffered from hallucination that she was pursued by demons. About two months ago she enrolled herself for the treatment offered by a Spiritual Adviser. Whilst she was receiving treatment as a resident at the Spiritual Adviser's house, he told her that he needed a bungalow to house the persons seeking his treatment and impressed upon her that her assistance was required in this matter. This prompted Jannat Bibi to state that she would help the Spiritual Adviser as soon as she recovered from her ailment. She returned home last week. A day after she returned home she signed a contract prepared by the Spiritual Adviser's lawyer agreeing to sell one of her bungalows in Lahore to Spiritual Adviser for Rs. 8 million. The market value of the bungalow is Rs.20 million. Now she says that she regrets having signed the contract and seeks your advice whether she could avoid the contract on any ground. **Advise Jannat Bibi.** **10**

Q.3. a) When communication of acceptance is said to be completed against the proposer? **04**

b) What is the effect of accepting performance by third person? **03**

c) Ali contracts to pay Rs.100,000 if Fahad's house is burnt. Write the nature and type of this contract. **03**

d) What is the responsibility of finder of goods belonging to another? **03**

Q.4. XYZ Ltd. is listed in Lahore Stock Exchange. Kamran works for XYZ Ltd. as an auditor. Whilst drawing up the annual accounts, Kamran noticed that XYZ Ltd's profits were better than anyone could have expected. As a consequence of this knowledge, he bought shares in XYZ before its good results were announced. He made a substantial profit on the share dealing. Kamran also told his friend Hasan about the results before they were announced. Hasan also bought shares in XYZ Ltd. **In the context of the criminal law relating to insider dealing, analyze the actions and potential liability of Kamran.** **10**

Q.5. a) How a Chief Executive of a company may be removed before the expiration of his term? **05**

b) Correct the statement; 'The copies of the financial report and the audit report should be sent to every member of the company atleast 30 days before meeting'. **05**

Contd. on back

c) What is the penalty for fraudulently inducing persons to invest money? **05**

Q.6. Whether a Director of a company is bound to disclose his interest in any contract entered into by or on behalf of the company? **10**

Q.7. Discuss the law relating to the prohibition of certain names and if a question arises as to whether or not the name of a company is in violation of Section 37, whose decision shall be final? **10**

Q.8. **a)** Partnership is a business where the persons agree to share profits of a business carried on by all or any one of them acting for all. Why the members of a Hindu undivided family carrying on a family business as such, or Burmese Buddhist husband and wife carrying on business as such, are not partners in such business? **02**

b) What is meant by an 'Act of a Firm'? **04**

c) Mr. **X**, a partner in '**X** & **Y** Consultants', signs an agreement to provide consultancy to 'Green Contractors'. Whether the agreement is binding on **X** & **Y** Consultants? What is the status of a partner in relation to a firm for the purposes of business? **03**

d) How the mutual rights and duties of the partners of a firm are determined? **03**

Q.9. **a)** **X** buys a sample of 100 bales of "Fair Bengal" cotton and after having inspected the bulk, the cotton proves not to be such as is known in market as "Fair Bengal". On what ground **X** may reject the goods when delivered to him? **02**

b) Discuss the law where the seller remains in possession of the goods after the sale. **08**

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Business Economics (08.11.2016)

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.10. Define the term "Economics Resources" and briefly explain the different categories of Economic Resources used in production process. **10**

Q.11. a) What does Demand Curve Show? **02**

b) Briefly explain the factors that cause inward and outward shifting of demand curve. **08**

Q.12. a) Define Indifference Curve. **02**

b) Briefly explain the effect of following on consumer equilibrium (using Indifference Curve analysis): **08**

i) If income increases and X & Y are Normal goods.
ii) If income increases and X is an inferior good.

Q.13. c) What is meant by devaluation of currency? **02**

d) ABC country decides to devaluate its currency with respect to foreign currencies. How would this decision affect the exports, imports and balance of the payments of economy? **08**

Q.14. a) Briefly explain the profit maximizing point of a firm. **04**

b) Consider the following Cost and demand information about a monopolist firm "ZK International". Fill out the table and determine how much the firm will produce if it is maximizing profits. What price will the firm charge? What are its profits? **06**

Quantity of Output	Price (Rs.)	Total Revenue (Rs.)	Marginal Revenue (Rs.)	Total Costs (Rs.)	Marginal Cost (Rs.)	Profit or Loss (Rs.)
1	14	-	-	16	-	-
2	12	-	-	20	-	-
3	10	-	-	26	-	-
4	8.5	-	-	33	-	-
5	7	-	-	41	-	-
6	5.5	-	-	50	-	-

Contd. on back

Q.15. **a)** Define GDP (Gross Domestic Product) and GNP (Gross National Product). **04**

b) Data of a hypothetical economy is given below. Find GDP, GNP and NNP: **06**

	Rs. (in billion)
Exports of goods and services	17.8
Consumption of Fixed Capital	11.8
Government purchases	59.4
Indirect Business Taxes	14.4
Gross Private Domestic Investment	52.1
Imports of goods and services	16.5
Net foreign factor income	2.2
Personal consumption expenditure	219.1

Q.16. **a)** Differentiate between Demand Pull and Cost Push Inflation. **04**

b) Briefly explain the Negative Effect of Inflation on the Economy. **06**

Q.17. What is meant by Economic Growth? Briefly explain four advantages and four disadvantages of Economic Growth. **10**

Q.18. **a)** Define Financial Intermediaries. **02**

b) Suppose a new deposit of Rs. 1,000 comes into the banking system. Show the process of credit creation upto 5 rounds. What would be the total credit creation as a result of this new deposit if reserve requirements are 20 percent? **08**

Q.19. Define the following Economic Terms:

i) Multiplier Effect **02**

ii) Economic Growth **02**

iii) Foreign Exchange Rate **02**

iv) Commodity Backed Money **02**

v) Structural Unemployment **02**

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Cost Accounting (09.11.2016)

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. The following information is given for the Moon Company:

Annual Demand – units	360,000
Lead time – weeks	5
Weeks per year	50
Carrying cost per unit-rupees	2
Cost per order-rupees	100

Calculate:

(i) Economic order quantity (EOQ) **08**

(ii) Optimum number of orders **03**

(iii) Total carrying and ordering costs **04**

Q.2. A&A Co. is considering to introduce an incentive scheme to achieve maximum efficiency of the employees on the one hand and to reduce the overheads like lighting, supervision etc., on the other hand. Following data is available for comparison of three different schemes 'A', 'B' and 'C' Standard production for an employee in the Assembly Department is 20 units per hour in an 8-hour day. The hourly wage rate is Rs.75.

a) If an incentive plan is used, with the worker receiving 80% of the time saved each day, and records indicate:

	Units	Hours
Saturday	160	8
Sunday	170	8
Monday	175	8

b) If the 100% Bonus Plan is used and 880 units are produced in a 40-hour week.

c) If an incentive plan is used, providing an hourly rate increase of 5% for all hours worked each day that standard production is achieved, and records indicate:

	Units	Hours
Saturday	160	8
Sunday	168	8
Monday	175	8

Required:

(i) Calculate the employee's earnings under each of the three schemes. **09**

(ii) Workout per unit labour cost of Assembly Department under each of the three schemes. **06**

Contd. on back

Q.3. The Moaz Company has four production departments and three service departments. The following information for the month of June has been collected from the record of the company:

Department	Actual Expenses (Rs.)	Area Square Feet	No. of Employee	Investment in Equipment (Rs.)
Grinding	60,000	3,000	30	120,000
Forming	84,000	1,500	20	60,000
Machining	24,000	2,500	30	72,000
Finishing	48,000	1,000	10	24,000
Building Service	36,000	500	15	3,600
Health and Recreation	30,000	2,000	5	9,600
Repairs and Maintenance	18,000	2,000	10	14,400
Total	**300,000**	**12,500**	**120**	**303,600**

The order and bases for distributing expenses of the service department are: Building Service–area, Health and Recreation–number of employees, Repair and Maintenance–investment in equipment. The company assigns service departments' expenses to other service departments.

However, after a department expenses have been allocated, no expense is assigned back to it.

Required:

Prepare a statement showing distribution of Service Department Overheads. **15**

Q.4. The following standards were established by Shahzaib Garments Company relating to shirts:

Standards:

Material:	Quantity per unit	2 ½ yards
	Price per yard	Rs.6.80
Labour	Time per Unit	3.6 hours
	Hourly rate	Rs.7.36
Overhead	Fixed Charges	Rs.9,600 per month
	Variable rate	Rs.6.00 per unit

Actual report for the month:

Production	4,120 Units	
Material used	10,510 Yards at an average of Rs.6.96 per yard	
Labour	15,276 Hours at an average of 7.52 per hour	
Overhead	Fixed:	Rs. 9,600
	Variable:	Rs. 26,700

Required:

(i) Statement showing Actual and Standard Costs. **05**

(ii) Material Price and Quantity Variance, Labour Hour and Rate Variance and Overhead Variance. **10**

Contd……

Q.5. During October, 2014 the assembly department received 60,000 units from the cutting department at a unit cost of Rs.3.54. Costs added in the assembly department were as under:

Cost Components	Rs.
Materials	41,650
Labour	101,700
Factory overheads	56,500

There was no beginning inventory. Out of the 60,000 units received 50,000 units were transferred out. 9,000 units were in process at the end of month (all materials 2/3 converted) 1,000 lost units were 50% complete in respect of material and conversion cost. The entire loss is considered abnormal and is to be charged to factory overheads.

Required:

Prepare a Cost of Production Report. **20**

Q.6. Muneeb Trucks Limited has some idle capacity in its plant. Which is restored by accepting order from other automobile industries? The company has finished assembly of 150 trucks against special order No. 13-A from Waseem Motors Limited. The relevant data is as under:

(a) Started October 3, 2006

Finished November 2, 2006

(b)

Department	Material Cost Rs. (000's)	Labour Hours	Rate Per Labour Hour (Rs.)
Assembly	150	4,500	18
Painting	75	1,200	15
Finishing	45	600	12

(c) Factory payroll for the year is expected to Rs.1,281,000.

Factory overhead for the year is estimated at Rs.776,000.

Departmental break-up is provided below:

Department	Payroll Rs. (000's)	Factory Overhead Rs. (000's)
Assembly	972	1296
Painting	225	375
Finishing	84	105

(d) Factory overhead is based on direct labour hours. Each department has its own factory overhead applicate rate per Direct Labour Hour.

(e) The agreed price to be charged is cost plus 20% mark-up, subject to a maximum charge of Rs.5,000 per truck.

Required:

(i) Total Cost of the Job **15**

(ii) Cost per Unit **02**

(iii) Total Gross Profit **03**

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate Sector

Financial Accounting (10.11.2016)

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 Candy (Pvt.) Ltd. as at June 30, 2015.

Particulars	Debit	Credit
Share Capital		5,500,000
Sales		9,600,000
Purchase Return		840,000
Creditors		1,160,000
Bank Loan @ 12%		400,000
Income from Investment		40,000
Discount Received		28,000
Opening stock	400,000	
Sales Return	800,000	
Purchase	6,640,000	
Carriage Inward	278,000	
Rent and Taxes	120,000	
Debtors	2,400,000	
Financial Charges	40,000	
Advertisement expenses	240,000	
Bad Debts	20,000	
Cash at Bank	210,000	
Discount allowed	40,500	
Investments	400,000	
Furniture and Fittings	450,000	
Audit Fees	54,000	
Insurance Premium	24,000	
Travelling Expenses	22,000	
Cash in Hand	54,000	
Salaries	1,375,500	
Building	2,500,000	
Plant and Machinery	1,500,000	
	17,568,000	**17,568,000**

Other Information:

- Closing Stock is Rs. 425,000.
- The effect of advertisement being not yet expired, 1/4 of the advertisement expenses is to be carried forward for the next year.
- Salaries outstanding as on June 30, 2014 were Rs. 124,500.
- Create provision for doubt full debts @ 5%.

Contd. on back

- The rate of depreciation for the non-current assets may be charged on the Book Value shown in the Trial Balance at following rates:

  (i) Furniture and fittings – 10%
  (ii) Buildings – 10%
  (iii) Plant and Machinery – 20%

Prepare the following Financial Statements in accordance with International Financial Reporting Standards / IAS.

(a) Statement of Profit or Loss for the year ended June 30, 2015. **13**

(b) Statement of Financial Position as on June 30, 2015. **12**

Q.2. Galaxy Brothers commenced their business on January 01, 2013 with Cash of Rs. 50,000,000, a building valued at Rs. 25,000,000 and motor vehicle costing Rs. 1,400,000. Following is the summarized Trial Balance as on December 31, 2013.

Particulars	Debit	Credit
Sales	-	136,000,000
Cost of Sales (including depreciation of Rs. 9,000,000)	83,500,000	-
Operating & Selling Exp (including depreciation of 6,250,000)	37,300,000	-
Miscellaneous Income (Net Loss of Rs. 350,000 on Claim)	-	500,000
Finance Charges	2,500,000	-
Taxation Expenses	6,000,000	-
Cash and Bank Balances	5,000,000	-
Bank Overdraft	-	23,000,000
Accounts Receivable	18,000,000	-
Provision for Doubtful Debts		900,000
Closing Inventory	10,000,000	
Accounts Payable		14,000,000
Interest Payable		1,200,000
Provision for Taxation	-	1,000,000
Partners Capital (Net of Cash Withdrawal)	-	73,950,000
12% Long Term Loan Payable	-	25,000,000
Property, Plant and Equipment	128,250,000	-
Accumulated Depreciation	-	15,000,000
	290,550,000	290,550,000

Additional data related to December 31, 2013 is as follows:-

Settlement of the insurance claim pertained to an accident of a new car costing Rs. 1,800,000 and having a depreciation charge of Rs. 250,000 for the period in use.

Required:

Prepare Statement of Cash Flows for the year ended June 30, 2015 using indirect method in accordance with IAS-7. **12**

Q.3. On November 01, 2015, ABC Company Limited held 300 units of finished goods item # 9639 in inventory. These were valued at Rs. 12 each. During November 2015 three batches of finished goods were received into store from the production department, as follows:

Receipts

10-Nov-15	400 Units	Rs. 12.50
20-Nov-15	400 Units	Rs. 14.00
25-Nov-15	400 Units	Rs. 15.00

Contd…..

Goods sold out of inventory during November were as follows:

Sales

14-Nov-15	500 Units	Rs. 20.00
21-Nov-15	500 Units	Rs. 20.00
28-Nov-15	100 Units	Rs. 20.00

Required:

What was the profit from selling inventory item 9639 in November 2015, applying the following principles of inventory valuation? **14**

(i) FIFO Method

(ii) Cumulative Weighted Average Costing

Q.4. (a) What particulars are required to be disclosed in the Financial Statements in respect of Revenue recognition according to IAS - 18? **06**

(b) Heavy Mechanical Complex sells a piece of heavy equipment to Saad & Brothers for Rs. 100,000 under a financing agreement which has no stated interest rate on December 31, 2013. If the Saad & Brothers had paid cash for the equipment within one month, the equipment sales price would have been Rs. 80,000. The Saad Brothers paid the amount of Rs. 100,000 on December 31, 2014. The accounting period of the Heavy Mechanical Complex is January to December.

Required:

Journalize the above transactions for the year ending on December 31, 2013 and 2014. **06**

Q.5. **A** & **B** are partners in a firm sharing profits and losses in the ratio of 3:2. The Balance Sheet of the firm as on March 31, 2011 was as under:

EQUITY AND LIABILITIES	
Sundry Creditors	296,000
Reserves	337,000
Capital Account - A	840,000
Capital Account - B	360,000
	1,833,000

ASSETS	
Stock in Trade	250,000
Sundry Debtors	190,000
Motor Vehicle	375,000
Office Equipment	300,000
Furniture and Fixture	600,000
Cash and Bank Balance	118,000
	1,833,000

Due to expansion in the business, **C** was admitted as a Partner with effect from April 01, 2011. **C** brought Furniture worth Rs. 120,000 and Stock Costing Rs. 800,000. He also contributed Cash of Rs. 150,000 plus his proportionate share of goodwill valued at two years' purchase of the average profits of the last three years.

Contd on back

Following adjustments were considered necessary, at the time of admission:

- On April 01, 2009, new furniture costing Rs. 8,000 was purchased but wrongly debited to revenue account. The firm charges depreciation on furniture @ 10% on Straight Line Method basis.
- An invoice dated October 01, 2010 for purchase of goods amounting to Rs. 24,000 has not been recorded.
- The firm values its stocks on the basis of physical inventory. On account of an error on the stock sheets. The stock on March 31, 2009 was overvalued by Rs. 10,000.
- Value of Sundry Debtors on March 31, 2011 is to be reduced by 6%.

The Profits of the last Three years before the above adjustments were:

- 2010 - 11 Rs. 352,100
- 2009 - 10 Rs. 232,000
- 2008 - 09 Rs. 128,000

It was decided that the future profits of the firm would be shared among **A**, **B** and **C** in the ratio of 5 : 3 : 2 respectively.

Required:

Prepare the Capital Accounts of the Partners and the Balance Sheet of the Firm on C's admission as a Partner. **22**

Q.6. Akhtar Limited operating its head office at Karachi and branch at Lahore. Akhtar Ltd supplies goods to its branch at cost. The expenses of branch are paid from Karachi and the branch keeps a sales journal and the debtor's ledger only. Following is the data for the period from July 01, 2014 to June 30, 2015. **15**

	Rs.
Opening Stock July 01, 2014	24,000
Closing Stock June 30, 2015	18,000
Sundry Debtors June 30, 2015	9,160
Credit Sales during the year	41,000
Cash Sales during the year	17,500
Receipts from Debtors	37,900
Goods Received from Head Office	33,600
Expenses paid by Head Office for the Branch	10,400

Required:

From the data above supplied by the Branch, **prepare** a Branch Account in the Books of the Head Office.

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate|AGP|PG|PMAD|PUBLIC Sectors

Bus. Com. & Report Writing (11.11.2016)

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.	**(a)** What are the three key purposes of Communication?	**06**
	(b) Identify the six stages which complete your communication in the light of Model of Communication?	**03**
Q.2.	Identify and explain in your own words five major barriers to communication which you would like to overcome?	**10**
Q.3.	Remove "wordiness" from the following statements and make them "**<u>Concise</u>**".	**05**
	(a) Please be advised that your admission statement was received.	
	(b) Allow me to say how helpful your response was.	
	(c) Please find attached the list you requested.	
	(d) Such refreshing comments are few and far between.	
	(e) It was known by Mr. Smith that we must reduce inventory.	
Q.4.	(a) What are different forms of face to face business communication?	**04**
	(b) Define non-verbal communication in your own words. How can it be used to give message?	**06**
Q.5.	"In order to maximize the effectiveness of your listening skill you must modify your natural style to balance with other styles". Discuss.	**06**
Q.6.	Give 02 line explanations of the following forms of written business communication.	**04**
	(a) Sales letter	
	(b) Adjustment letter	
	(c) Letter of recommendations	
	(d) Cover letter	
Q.7.	You have established an organization that provides household support services including janitors, maids, drivers, and gate keepers. Write a sales letter to promote your services. Assume necessary details.	**12**
Q.8.	Write a 'Cover letter' for attaching to the consignment of damaged goods which is being returned by your organization. Assume necessary details.	**10**

Contd. on back

Q.9. Define the following terms. **10**

- **(a)** Free Web Hosting
- **(b)** Standard Web Hosting
- **(c)** E-Commerce
- **(d)** Reseller

Q.10. ABC Co. is interested in outsourcing its HR and Payroll systems. It has invited proposal from interested parties through newspaper. As General Manager Sales of XYZ Co. you have to write a proposal for ABC Company. Assume all necessary details. **12**

Q.11. Your organization provides consultancy for "Creating Pollution Free Environment". **12**

An International Donor Agency has hired your firm to write a report on making Karachi pollution free. Assume all necessary details.

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate Sector

Taxation (07.11.2016)

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

(i) Foreign Source Income **02**

(ii) Fast moving Consumer goods **02**

(iii) Principal Officer **02**

(iv) Taxpayer **02**

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

(i) Manufacturer & Producer **02**

(ii) Supply **02**

(iii) Input Tax **02**

Q.3. A manufacturing company is engaged simultaneously in manufacturing and supply of taxable as well as exempt goods. Summary of its transactions for the month of August is given below:

	Rs.
Purchases of goods to be used for taxable supplies	600,000
Purchases of goods to be used for exempt supplies	900,000
Purchases of goods to be used for both taxable and exempt supplies	3,000,000
Total input tax on all purchases @17%	765,000
Supply of wholly taxable goods	1,500,000
Supply of wholly exempt goods	1,800,000
Supply of partly taxable and partly exempt goods Taxable Supplies 3,750,000 Exempt Supplies 750,000	4,500,000

Compute the Sales Tax Liability of the company for the Tax Period. **10**

Q.4. Discuss the provisions of record under the Federal Excise Act, 2005. **10**

Q.5. Explain the provisions of amortization of Intangibles under the Income Tax Ordinance, 2001. **15**

Q.6. Discuss the provisions of pre-commencement expenditure under the Income Tax Ordinance, 2001. **10**

Q.7. Explain the provisions of deduction of Withholding Tax and its coordination of various categories of Taxpayer as provided in clause 45A of part-IV of the second schedule of the Income Tax Ordinance, 2001. **12**

Contd. on back

Q.8. Mr. **B** is the Chief Executive of a Multinational Company. Details of his emoluments are as follow:

	Rs.
Basic Salary	8,800,000
Bonus	5,000,000
Utility allowance	880,000
Relocation allowance	200,000

Apart from the above he is provided with the following perquisites/benefits:

- A free unfurnished accommodation by the employer with land area of 2,100 sq. yards.
- Motor Vehicle for both private and official use, cost of acquisition of which was Rs. 2,000,000.
- Children education fees for the year Rs. 105,000.
- House servant salaries for the year Rs. 230,000.

According to the terms of employment the tax liability of Mr. **B** on the above benefits and perquisites from (i) to (iv) above is borne by the employer. Tax liability on other remuneration is borne by himself.

Mr. **B** also owns a property which was let out on rent for a part of the year. Details of income and expenses incurred are as follows;

- Rent Rs. 50,000 per month.
- The property was let out on rent from December to June.
- Property tax paid Rs. 35,000.

The Bank account of Mr. **B** was credited with profit during the year amounting to Rs. 6,300.

During the year the following amounts were withheld at source as Income Tax;

	Rs.
From salary income	3,786,000
Tax paid by the employer	1,883,571
From profit on bank account	630
On receipt of rent	20,000

Compute the Taxable Income and Tax Liability for the year 20X8. **15**

Q.9. Explain the Clauses 29, 30, 31 (Covering Laws of Insurance, Stock Exchange and Corporations) of Federal Legislature list of the Constitution of the Islamic Republic of Pakistan 1973. **08**

Q.10. Explain the penalties of the following offences provided in Section 33 of the Sales Tax Act 1990.

a) Where any person violates any embargo placed on removal of goods in connection with recovery of tax. **02**

b) Any person who fails to make payment in the manner prescribed u/s 73 of this Act. **02**

c) Where any person fails to furnish a return within the due date. **02**

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Pakistan Institute of Public Finance Accountants
Winter Exam-2016
Corporate Sector
Financial Reporting (07.11.2016)

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. A company during the finalizations of its Financial Statements has come across the following transactions/events.

- There have been a stock of free samples lying in its warehouse, the fair value of which is approximately Rs. 250,000.
- The entity has sold goods to various customers on sale and return basis of which Rs. 550,000 have not been confirmed by the reporting date but before the authorization of Financial Statements, confirmations of all the goods have been received. The company on average charge 25% markup on all goods it sell under this type of arrangement. The company has included the full amount in the revenue for current year.
- The company has sold goods along with repair contracts of two years for Rs. 250,000. The repair contract and goods are normally separately sold for Rs. 50,000 and 200,000 respectively. The un-expired period of repair by the reporting date is one and half year. However, the company has booked the whole amount as revenue during the year. The repair services are evenly distributed over the two years.
- The company normally sells goods on two month credit period but a customer has asked for two year credit period. The company provided the said credit period, but the price charged represents the extra price charged for extended period. The goods are sold for Rs. 50,000 and company charged 10% per year interest on compound basis on the fair value of goods. The un-expired period by the year end is one year and three months. The company has recognized the full amount of Rs. 50,000 in the current year.

Required:

Discuss the implication of above transitions/events on the Financial Statement for the year ended. **12**

Q.2. An entity has the following information for calculation of its Current Tax and Deferred Tax Balance.

	2015	2014
	Rs. (m)	Rs. (m)
Accounting WDV	1,365	1,580
Tax WDV	1,150	1,465
Provision for doubtful debts	15	12
Provision for gratuity	35	25
Bad debts written off during the year	7	--
Gratuity paid during the year	10	--
Accounting profit before tax	7,950	--
Capital gain exempt from tax	35	--

Contd. on back

The applicable tax rate for 2014 is 33% and for 2015 is 32%.

Required:

Prepare extracts to Financial Statements for tax expense and reconciliation of tax on accounting profit and tax expense for year 2015. **15**

Q.3. The following are the Statements of Financial Position of a Parent Company Limited (PCL) and its Subsidiary Company Limited (SCL) as at December 31, 2015.

	PCL	SCL
	Rs. (m)	Rs. (m)
Assets		
Noncurrent assets		
Tangible assets	1,358	503
Intangible assets	150	52
Investment in SCL	600	--
	2,108	555
Current assets	515	465
	2,623	1,020
Equity and liabilities		
Equity-Ordinary share capital of Rs. 10 each	1,500	400
Retained earnings	523	175
Revaluation surplus	--	30
	2,023	605
Noncurrent liabilities	350	310
Current liabilities	250	105
	2,623	1,020

The following information is also relevant for the preparation of consolidated statement of financial position.

- The PCL acquired 28 million shares in SCL on July 01, 2013 when its reserves were Rs. 225 million.
- The fair values of net assets at the date of acquisition were not materially different from its carrying values.
- The parent follows the historic cost model under IAS 16 for its property, plant and equipment but SCL has revalued its assets at the start of current year by recognizing a revaluation surplus of Rs. 30 million. This revaluation surplus has resulted in extra depreciation of Rs. 5 million in the current year.
- The SCL recognized the intangible asset in its financial statements during the year, which does not, satisfy the definition of intangible assets under IAS 38.
- The current assets of PCL includes Rs. 20 million due from SCL, however, SCL's current liabilities does not include any payable to PCL. The difference is due to a cheque in transit sent by SCL not received by PCL by the reporting date.
- The non controlling interest was measured at fair value at date of its acquisition. The fair value of SCL share at date of acquisition was Rs. 25 per share.
- The goodwill has suffered an impairment loss of Rs. 5 million by the current reporting date.

Required:

Prepare Consolidated Statement of Financial Position as at June 30, 2015 for PCL Group. **23**

Contd.......

Q.4. The company purchased an asset on January 01, 2013 for Rs. 150,000 being depreciation at 20% pa on straight line basis. On June 30, 2014, the asset was revalued to Rs. 170,000 and depreciation rate revised to 15% pa on straight line basis. The company has the policy of transferring revaluation surplus to retained earnings on de-recognition of asset.
On January 01, 2015 the asset collided with other asset and was damaged beyond repair. The value in sale of this asset was Rs. 45,000 and value in use on reduced capacity basis was Rs. 40,000 with one and half year remaining life. Due to uniqueness of the plant and no replacement available for the plant, the entity decided to operate the plant.

Required:

Determine the Impairment Loss to be recognized against Revaluation Surplus and Profit or Loss Account and value of asset on June 30, 2015. **10**

Q.5. An asset costing Rs. 50,000 was purchased on July 01, 2012 having useful life of 8 years. The asset was being depreciated on straight line basis with no residual value. The asset has been revalued as follows:-

a) On June 30, 2013 for Rs. 49,000
b) On June 30, 2014 for Rs. 36,000
c) On June 30, 2016 for Rs. 45,000

There have been no change in the useful life of asset and the company follows the policy of transferring revaluation surplus to retained earnings on account of extra depreciation.

Required:

Prepare necessary double entries for all the three years. **10**

Q.6. During finalization of Financial Statements of a large scale company, you came across the following accounting issues:

a) The entity has changed the depreciation method from straight line to reducing balance method at the year end June 30, 2015. The cost and accumulated depreciation at the start of the year are as under:

	Rs. (000)
Cost	1,250
Accumulated Depreciation	(750)
Carrying Value	500

The rate calculated after incorporating the residual value of Rs. 50,000 and remaining useful life of 5 years is 37%.

Required:

Calculate the depreciation expense and carrying value to be incorporated in current year Financial Statements. **05**

b) The entity has been notified by the tax authorities that the proceedings for Tax Assessment for the Tax Year 2014 have been initiated on March 14, 2015. The Tax Advisor of the entity filed the requisite information before the year ended June 30, 2015 but the assessment order received after the year end requiring the company to pay tax amounting to Rs. 2 million. The Tax Advisor suggested that no appeal to be filed and better to pay the tax demanded.

Required:

Whether provision for taxation to be made at the year-end for tax demanded if so under what head it should be reported in the Financial Statements? **05**

Contd. on back

Q.7. The following Financial Statements are given of ABC Limited for the year ended June 30, 2016.

Statement of Comprehensive Income

	2016
Profit or Loss Account	**Rs. (000)**
Operating Profit	112,250
Interest Expense	(12,225)
Gain on disposal of fixed assets	25
Profit before tax	100,050
Tax expense	(40,255)
Profit after tax	59,795
Other Comprehensive Income	
Defecate on revaluation of building	(120)
Fair value gain on investments	25
	(95)
Total Comprehensive Income	59,700

Statement of Financial Position

	2015	2016
	Rs. (000)	**Rs. (000)**
Assets		
Non -current assets		
Property, plant and equipment	375,360	350,750
Investments available for sale	675	450
	376,035	351,200
Current assets		
Inventory	45,290	132,230
Debtors	65,655	75,362
Cash and bank balance	--	233
	110,945	207,825
	486,980	559,025
Equity and liabilities		
Equity –ordinary share capital of Rs. 10 each	150,750	125,000
Share premium	15,000	--
Retained earnings	203,865	175,320
Fair value gain	25	--
Revaluation surplus	430	550
	370,070	300,870
Non-current liabilities		
10% TFC's	1,175	1,000
Lease liability	25,325	15,450
Deferred tax	24,275	35,750
Provision for dismantling	1,715	650
	52,490	52,850

Contd.....

Current liabilities		
Trade creditors and accrued liabilities	36,805	144,520
Lease liability	16,925	25,330
Income tax payable	10,258	35,455
Bank overdraft	432	--
	64,420	205,305
	486,980	559,025

The following further information is available.

- An asset having carrying value of Rs. 5.25 million was disposed of and asset costing Rs. 16 million was taken on lease during the year. Depreciation expense for the year was Rs. 50.35 million.
- Trade creditors and accrued liabilities includes Rs. 0.5 million for interest payable (2015 Rs. 0.35 million).
- During the year a provision of Rs. 1 million was created for dismantling and site restoration cost relating to property, plant and equipment. The other difference on provision is due to un-winding on opening provision.
- A final dividend of 15% and Nil bonus was announced on September 15, 2016 (2015- 10% dividend, 15% Bonus).

Required:

Prepare Statement of Cash Flows for the year ended June 30, 2016. **20**

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate|AGP|PG|PUBLIC Sectors

Management Accounting (08.11.2016)

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. Lumen Co. is appraising the purchase of a new machine, costing Rs.1.5 million, to replace an existing machine which is becoming out of date. The forecast levels of production and sales for the goods produced by the new machine, which has a maximum capacity of 400,000 units per year, are as follows:

Year	1	2	3	4
Sales Volume(000)	350	380	420	430

The new machine will incur fixed annual maintenance costs of Rs.200,000 per year out of which Rs.55,000 relates to central office overheads. Variable costs are expected to be Rs.3.00 per unit and selling price is expected to be Rs.5.25 per unit.

The resale value of the new machine is expected to be Rs.200,000 at that time, in future value terms. The purchase price of the new machine is payable at the start of the first year of the four-year life of the machine. Lumen Co. pays corporation tax at an annual rate of 30%. The company has a nominal after-tax weighted average cost of capital of 10%.

Required:

(a) Using a nominal terms net present value approach, evaluate whether purchasing the new machine is financially acceptable. **10**

(b) Calculate Internal Rate of return of the project and discuss its acceptability. **05**

(c) Calculate Simple Payback Period. **05**

Q.2. Sun Co. makes four components, **A**, **B**, **C** and **D**, for which costs in the forthcoming year are expected to be as follows.

	A	B	C	D
Production (units)	2,000	1,500	4,000	3,000
Unit marginal costs	Rs.			
Direct materials	4	5	2	4
Direct labour	8	9	4	6
Variable production overheads	2	3	1	2
	14	17	7	12

Directly attributable fixed costs per annum and committed fixed costs:

Incurred as a direct consequence of making **A**	1,000
Incurred as a direct consequence of making **B**	5,000
Incurred as a direct consequence of making **C**	6,000
Incurred as a direct consequence of making **D**	8,000
Other fixed costs (committed)	30,000
	50,000

Contd. on back

A sub-contractor has offered to supply units of **A**, **B**, **C** and **D** for Rs.12, Rs.21, Rs.10 and Rs.14 respectively.

Required:

Should Sun make or buy the components and what are the other considerations should be taken in to account? **15**

Q.3. Product **A** and **B** are produced in a joint process. At split-off point, Product **A** is complete whereas product **B** can be process further. The following additional information is available:

Product	A	B
No. of units	10,000	15,000
Selling price per unit		
at split-off	Rs. 20	Rs. 5
If processed further	-	Rs.10
Costs after split-off	-	Rs. 50,000

Required:

(a) Explain Incremental Approach, Opportunity Cost Approach and Total Project Approach briefly. **05**

(b) Perform sell-or-process-further analysis for product **B**. **05**

Q.4. Khan Co. is considering changing its supplier of raw materials. The existing and proposed supplier both supply the raw material for Rs.5 per unit, but the proposed supplier will offer a bulk buy discount of 8% on all orders of 7,000 or more units.

The following information is available:

- Khan Co. estimates that the ordering costs are Rs. 200 per order and the holding cost for one item for one year will be 15% of the purchase price.
- Annual demand for raw materials is 40,000 units.

Required:

(a) Briefly describe FOUR costs that are associated with inventory. **04**

(b) Calculate the order size to minimize total costs, and so conclude whether the proposed supplier should be used. Clearly show all workings. **06**

Note: The economic order quantity (EOQ) is given by the formula: $\sqrt{2cd/h}$

Q.5. Manno began trading as a car cleaner in June.

- In September, Manno will take delivery of new equipment costing Rs. 2,400, which will be paid for half in the month of delivery and half the following month. This equipment is expected to last two years.
- Manno charges on average Rs.20 to clean the cars and he has decided to clean a maximum of 100 cars per month. He receives cash on the day the cars are cleaned.
- It is now July and Manno has 50 cars in his approach, but he is gaining a reputation for reliability and quality of service, and he expects this number to go up by 30% each month until his maximum is reached. Every car cleaned once a month.
- Manno has obtained one monthly contract for cleaning the cars of a local doctor's surgery which he will start in August. Manno will invoice them Rs.50 each time he cleans their cars.

Contd. on back

- The local Car Association wants to use Manno's services, starting when he has his new equipment. This will also be a monthly contract, for Rs.75 per month.
- Both clients will pay Manno the month after he has cleaned the cars.
- Manno has not taken a salary so far, but intends to draw Rs.1,000 each month starting in August. Costs are 5% of income, and are paid in the month incurred.
- The balance on Manno's current account is expected to be Rs.200 at the beginning of August and the bank has authorized an overdraft facility of Rs.1,000.

Required:

Prepare a Cash Budget for each of the four months August, September, October and November. Work to the nearest Rs. **15**

Q.6. The Ahsan Co. makes beds. It has recently received a request from a customer to provide a one-off order of sofas, in excess of normal budgeted production. The following notes are relevant:

Notes:

- The fabric is regularly used by Ahsan Co. There are currently 200 m^2 in inventory, which cost Rs.18 per m^2. The current purchase price of the fabric is Rs.18.50 per m^2. 400 m^2 of fabric is required for the project.
- Wood is regularly used by the Co. and usually costs Rs.8.20 per m^2. However, the company's current supplier's earliest delivery time for the wood is in three weeks' time. An alternative supplier could deliver immediately but they would charge Rs.8.50 per m^2. Ahsan Co. already has 1000 m^2 in inventory but 980 m^2 of this is needed to complete other existing orders in the next two weeks. The remaining 20 m^2 is not going to be needed until four weeks' time. 100 m of wood will be required by the project.
- 400 hours of skilled labor is needed. The skilled labor force is employed under permanent contracts of employment under which they must be paid for 40 hours' per week's labor, even if their time is idle due to absence of orders. Their rate of pay is Rs.20 per hour, although any overtime is paid at time and a half. In the next two weeks, there is spare capacity of 300 labor hours.
- 600 hours of semi-skilled hours is required. There is no spare capacity for semi-skilled workers. They are currently paid Rs.16 per hour or time and a half for overtime. However, a local agency can provide additional semi-skilled workers for Rs.20 per hour.
- Rs.5 absorption rate is standard factory over head absorption rate; Rs.2.50 per hour reflects the cost of the factory supervisor's salary and the other Rs.2.50 per hour reflects general factory costs. The supervisor is paid an annual salary and is also paid Rs.16 per hour for any over time he works. He will need to work 20 hours' overtime if this order is accepted.

Required:

Prepare, on a relevant cost basis, the lowest cost estimate which could be used as the basis for the quotation. Explain briefly your reasons for including or excluding each of the costs in your estimate. **15**

Q.7. Haseeb Co. manufactures three types of fitness equipment **A**, **B** and **C**. The budgeted sales prices and volumes for the next year are as follows:

	A	B	C
Selling price	Rs. 1,600	Rs. 1,800	Rs. 1,400
Units	420	400	380

Contd……

The Standard Cost Card for each product is shown below:

	A	B	C
	Rs.	Rs.	Rs.
Material	430	500	360
Labor	220	240	190
Overheads	110	120	95

Labor costs are 60% fixed and 40% variable. General fixed overheads excluding any fixed labor costs are expected to be Rs.55,000 for the next year.

Required:

(a) Calculate the weighted average contribution to sales ratio for Haseeb Co. **06**

(b) Calculate the margin of safety revenue (in Rs.) for Haseeb Co. **06**

(c) Explain what would happen to the breakeven point if the products were sold in order of the most profitable products first. **03**

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Pakistan Institute of Public Finance Accountants

Winter Exam-2016

Corporate Sector

Audit, Assurance & Ethics (09.11.2016)

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. As the basis for the auditor's opinion, International Standards on Auditing require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

Required:

Explain what is meant by sufficiency and appropriateness of audit evidence? **04**

Q.2. You are the audit manager in Hanif and Company, Chartered Accountants. One of your clients is Sitara and Kinara Limited (SKL) which has a year end of 30 September 2016.

The management of Sitara and Kinara Limited (SKL) recognizes revenue on dispatch of goods from SKL's warehouse to customer location. While reviewing the contracts with customer you came to know that risk and rewards of the goods are transferred at customer premises after the acceptance of delivery. Meaning thereby it is SKL's responsibility to deliver the goods at the premises of customer and customer has the right to not accept the delivery if it does not meet the specifications or quality.

You asked the audit senior at SKL to perform cut-off procedures on the basis that risk and rewards are transferred after acceptance by customer. He selected a sample from the last week's sales transactions and identified that the management has recorded revenue amounting to Rs. 160 million in the year ended 30 September 2016 which actually pertains to the deliveries made to customers after the year end.

The relevant figures from the un-audited financial statements are as follows:

Sr.#	Particulars	Rs. in million
1.	Sales (excluding above sales)	3,000
2.	Cost of sales	2,100
3.	Net profit	540
4.	Trade receivables	1,200
5.	Inventory	500
6.	Total assets	2,500

Required:

(a) Explain the impact of the above issue on the audit of Revenue and Trade Receivables. **08**

(b) Assuming that the management does not agree to make any adjustment in the financial statements, explain the impact of the above situation on the audit report of SKL. **04**

Contd. on back

Q.3. ISA 315: **Identifying and assessing the risks of material misstatement through understanding the entity and its environment** states that the objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, through understanding the entity and its environment, including the entity's internal control.

Required:

Briefly state what matters/factors auditor will consider in obtaining and understanding of the entity and its environment, including the entity's internal control. For each matter identified give two examples each. **10**

Q.4. You are quality assurance partner in Pearson and Spector, Chartered Accountants. You received a memo stating following issues.

(a) The Audit Manager assigned to the audit of Rock Steel Limited (RSL), a listed company, has recently inherited 100,000 shares of RSL from his Grandfather's brother who had no other relatives at the time of his death. RSL has 100,000,000 shares in issue. The Audit Partner of RSL does not hold any share in that Company.

(b) Your firm is planning to send audit proposal for Light Minerals Company (LMC). LMC is the market leader in minerals and mining. All assurance partners believe that having LMC is very important for the portfolio of the firm and therefore the firm is planning to quote very low fee for the audit of LMC.

Required:

With reference to the code of Ethics for Chartered Accountants issued by ICAP briefly describe the ethical risk/ threat involve in above situations. For each matter, also describe safeguards that your firm should take to reduce the ethical risk identified. **10**

Q.5. State and explain five elements of Assurance Engagements. **10**

Q.6. Mr. Tabish Usmani is the audit partner in Hussain Kirmani, Chartered Accountants. One of the clients in his portfolio is Pure Water Limited (PWL) (a public interest company providing water to the public at large).

This is the first year of audit. You are the Engagement Manager on the audit and after reviewing some of the work performed, have told the Engagement Partner that the audit team has identified a major fraud in inventory of "19 litre bottles' of fresh water. The details of the fraud are that nearly 10 million of 19 liters are unaccounted for.

After detailed discussion with the senior partners of the firm and evaluation of evidence it is suspected that senior management of PWL may be involved in the suspected fraud.

The partners of the firm have concluded that this has brought into question the auditor's ability to continue performing the audit.

Required:

Mr. Tabish Usmani has asked you to write a memo for the partners of firm stating the factors as required by ISA-240, the firm needs to consider if the firm is unable to continue the engagement. **10**

Q.7. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan.

Required:

What are the five likely benefits of adequate planning of audit of Financial Statements? **10**

Contd……

Q.8. Define the following:

(a)	Significant Risk	**02**
(b)	Audit Evidence	**02**
(c)	Population	**02**
(d)	Statistical Sampling	**02**
(e)	Tolerable Rate of Deviation	**02**

Q.9. You are Audit Manager in a large sized firm. One of your clients is Nourishing Foods Limited (NFL) (a listed client) and audit for 30 September 2016 is in process.

In August 2016, one of the major products of NFL "Go Pro Supplements" (GPS) was banned by the health regulators and license of manufacturing and selling the said product was revoked

The Management of the Company has challenged the actions of the regulators in Honorable High Court. Legal advisor of the Company has said that though the Company has defendable arguments, however he does not know that whether NFL has good chances of winning this case. You have done some search regarding the similar cases and found out that nearly all cases of such nature are decided in favor of the Health Regulator because health regulators only bans product after having sufficient evidence.

As at year end, stocks related to GPS was of Rs. 300 million, the net book value of the dedicated machine used to produce GPS was Rs. 2,000 million and net book value of license was Rs. 200 million.

Keeping in view the ban and revoking of license of GPS, the audit senior has gathered following information:

- NRV of stock of GPS is zero
- The equipment used to produce GPS can be sold at Rs. 800 million.
- License has market value of zero

However, the management is of the view that no provision/write off is required since the case in Court.

The relevant figures from the un-audited Financial Statements (without taking the effects of above) are as follows:

Sr.#	Particulars	Rs. in million
1.	Net profit	3,000
2.	Total Assets	12,000
3.	Net assets	8,000

Required:

Discuss the situation thoroughly and evaluate the impact of this on audit report. **14**

Q.10. Subsequent events are events occurring between the date of the Financial Statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

a) Nisar Textile Limited has a year end of 30 September 2016. The Board of Directors of the Company at its meeting held on 08 November 2016 has approved a final dividend @ 100% per share for the year ended 30 September 2016.

Contd. on back

b) The audit of Softech Limited (SL) for the year ended 30 September 2016 is in process. Last year the financial statements of SL contained a contingency with respect to a major tax litigation amounting to Rs. 500 million. As at 30 September 2016, the case was pending litigation before Honorable Supreme Court. The Supreme Court on 30 October 2016 decided the case against the Company.

Ignoring above litigation, Net assets of the Company as at year end amounts to Rs. 10,000 million and profit for the year ended amounts to Rs. 625 million.

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. **10**

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