Summer Exam-2015

Corporate Sector

Financial Accounting (04.05.2015)

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

(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. You are to study the following Financial Statements of Makkah Plastic Limited for the year 2013 and 2014:

Income Statement	**2014**	**2013**
Sales	418,000	392,000
Less Cost of Sales		
Opening Stock	74,000	58,000
Add Purchases	324,000	318,000
	398,000	376,000
Less Closing Stock	(84000)	(74000)
Cost of Goods Sold	314,000	302,000
Gross Profit	104,000	90,000
Administrative Expenses	28,000	22,000
Depreciation	18,000	18,000
Interest	4,000	4,000
	50,000	44,000
Profit Before Tax	54,000	46,000
Provision for Taxation	(20,000)	(20,000)
Profit after Taxation	34,000	26,000
Dividends for the Year		
Ordinary Shares	12,000	10,000
Preference Share	4,000	4,000
Balance Sheet		
Non-Current Assets	260,000	278,000
Current Assets		
Inventory	84,000	74,000
Debtors	58,000	46,000
Cash and Bank Balance	6,000	50,000
	148,000	170,000
Total Assets	408,000	448,000
Capital and Reserves		
Capital Ordinary Shares (Shares of Rs.10 Each)	70,000	70,000

Contd. on back

Preference Share Capital (Shares of Rs.10 Each)	50,000	50,000
Share Premium Account	34,000	34,000
Revaluation Reserves	20,000	-
Unappropriated Profit	62,000	84,000
	236,000	238,000
Non Current Liabilities @ 5%	80,000	80,000
Current Liabilities		
Trade Payables	72,000	110,000
Taxation	20,000	20,000
	92,000	130,000
Total Capital and Liabilities	408,000	448,000

Required: **15**

Calculate the followings Ratios for both the years and based on your workings, Comment upon the differences and similarities of the ratios for both the years.

(i) Current Ratio

(ii) Quick Ratio

(iii) Interest Cover

(iv) Dividend Cover

(v) PE Ratio if market price is Rs.120 in 2014.

Q.2. Mr. Khan is a small trader, and is financially incapable of engaging the services of an accountant. He keeps no books but only an account with a bank in which all takings are lodged after meeting business expenses and his personal drawings and thought in which all payments for business purchased are passed.

(a) The Bank Statement shows following during the year:

- Deposits Rs.12,020,000.
- Withdrawals Rs.11,850,000.

(b) Cash Withdrawn Rs.1,000,000 had been placed in Fixed Deposit on December 31, 2013 at 10% on July 01, 2014.

(c) The Assets and Liabilities on December 31, 2014 were:

- Trade Debtors Rs.1,150,000.
- Trade Creditors Rs.400,000.
- Bank Balance Rs.320,000.
- Closing Stock Rs.1,100,000.
- Furniture and Fixture Rs.2,000,000.

(d) In the absence of reliable information, estimates are supplied on the following matters:

- The Stock and Book Debts have each increased by Rs.100,000 during the year.
- The Trade Creditors were Rs.200,000 on January 01, 2014.

(e) During the year, personal expenses amounted to Rs.800,000 and Business Expenses Rs.700,000.

Contd.....

Required: 18

You are required to ascertain his trading result for the year ended December 31, 2014 and the Financial Position of his business as on that date with necessary notes.

Q.3. Following is the Trial Balance of Al-Maroof Honey (Private) Limited as at June 30, 2014.

Particulars	Debit	Credit
Share Capital (1,500,000 Ordinary Shares of Rs. 10 Each)		15,000,000
General Reserves		1,800,000
Retained Earnings		3,000,000
Trade Creditors		2,300,000
Sales		13,000,000
Long Term Loan 8% (January 01, 2014)		10,000,000
Accumulated Depreciation Building		4,000,000
Accumulated Depreciation Plant and Machinery		3,200,000
Accumulated Depreciation Furniture and Fixture		1,200,000
Cash and Bank Balance	15,550,000	
Opening Stock July 01, 2013	900,000	
Insurance Expenses	500,000	
Selling and Distribution	300,000	
Electricity, Gas and Water	1,500,000	
Rent, Rates and Taxes	500,000	
Transportation	50,000	
Purchases	1,200,000	
Wages	1,800,000	
Salaries and Benefits	1,200,000	
Machinery at Cost	8,000,000	
Building Premises at Cost	10,000,000	
Furniture and Fixture at Cost	3,000,000	
Trade Debtors	4,000,000	
Interim Dividend Paid	450,000	
Capital Work in Progress	4,500,000	
Courier and other Postage Expenses	50,000	
	53,500,000	**53,500,000**

Other Information:

- The Company has an authorized capital of 2,500,000 shares of Rs.10 each.
- Depreciation is to be charged @ 20% on Straight Line Method on all Fixed Assets. However, Depreciation on building and furniture will be allocated as 50% to administrative and 50% selling respectively. As per Company's policy, no depreciation will be charged on newly completed building. The depreciation on machinery will be charged to Cost of Goods Sold.
- Capital work in progress is Rs.500,000.
- Income Tax rate is 35%.

Contd. on back

- Transfer Rs.2,000,000 to General Reserves.
- Final dividend declared @ 5%.
- Closing Inventory as at June 30, 2014 was Rs.3,900,000.
  (Finished Goods and opening = 0, Closing of Raw Material = 0)
- Proportion of expenses.
- Administrative Expenses;
  Insurance Expense 20%, Rent 50%, Electric 30% and Salaries 75%.
- Selling Expenses;
  Insurance Expense 20%, Rent 20%, Electric 10% and Salaries 25%.
- Cost of Sales (Manufacturing Cost);
  Insurance Expense 60%, Rent 30%, Electric 60%.

Required: **25**

Prepare the following Financial Statements in accordance with International Financial Reporting Standard / IAS - 1.

(a) Statement of Profit or Loss for the year ended June 30, 2014
(b) Statement of Financial Position as on June 30, 2014
(c) Statement of Changes in Equity as on June 30, 2014
(d) Schedule of various expenses

Q.4. The Balance Sheets of Real Crafts (Private) Limited as at December 2014 and 2013 are as follows:

	Dec-31-2014	**Dec-31-2013**
Current Assets	276,000	286,000
Cash and Bank Balances	158,000	48,000
Fixed Assets	1,033,000	887,000
Total Assets	1,467,000	1,221,000

Current Liabilities	518,000	433,000
Income Tax Liability	23,000	25,000
Capital	589,000	518,000
Profit and Loss Account	307,000	225,000
Dividend Payable	30,000	20,000
Total Equity and Liability	1,467,000	1,221,000

Other information for the year 2014 is as follows:

- Income Tax Expenses for the year Rs. 175,000.
- During the year Management declared dividend of Rs. 300,000.
- Fixed assets costing Rs. 150,000 with a Net Book Value of Rs. 100,000 were sold for Rs. 50,000.
- Depreciation charged to Profit and Loss Account amounting to Rs. 400,000.

Required:

Prepare Statement of Cash Flows for the year ended December 31, 2014 using Indirect Method in accordance with IAS -7. **12**

Q.5. The cost of inventory of Softstyle Boot House(SBH) based on inventory count carried out on July 03, 2014 was Rs. 675,000. These included goods costing Rs. 15,000 which were purchased in June 2014 and have a realizable value of Rs. 12,000.

During the period between June 30, 2014 and July 03, 2014 following transactions took place:

- Value of goods purchased amounted to Rs. 155,710.
- Sales of goods amounted to Rs. 250,000.
- **SBH** normally sells goods at a mark-up of 25% of cost.
- 20% of the sales were made at a discount of 8% of the normal selling price.
- Purchase Return to supplier amounting to Rs. 1,990.

Required: **08**

You are required to calculate the Value of Stock as at June 30, 2014 that should be reported in the Financial Statement.

Q.6. **a)** As per IAS-1, Financial Statements should be presented at least annually. When an entity changes the end of its reporting period and presents Financial Statements for a period longer or shorter than one year. What disclosure should be given by the entity, in addition to the period covered by the Financial Statement? **04**

b) As per IAS-1, what are the circumstances which allows an enterprise to continue to classify its long term interest bearing liabilities as non current, even they are due to be settled within twelve months of the Balance Sheet date? **06**

Q.7. **a)** As per IAS - 16, what factors should be considered to estimate the useful life of a depreciable asset? **04**

b) Softstyle Boot House(SBH) made off its used delivery van for a new model. The van given up has a book value of Rs. 160,000. (Original Cost = Rs. 240,000 less Accumulated Depreciation Rs. 80,000) and a fair value of Rs. 120,000. It is traded for a new model that has a list price of Rs. 320,000. After the negotiation between the **SBH** and Dealer, a trade in allowance of Rs. 180,000 is finally agreed on the van.

Required:

(i) Calculate the cost of New Van alongwith Computation for Gain / Loss on Exchange Transaction. **05**

(ii) Record the transaction in the books of **SBH**. **03**

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Summer Exam-2015
Corporate Sector
Performance Measurement (05.05.2015)

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

[Instructions]

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Attempt all Questions

Q.1. A company produces a single product. The planned production and sales for the latest quarter was 46,000 litres. The budgeted costs per litre were as under:

	Rs.
Prime costs	5.20
Production overheads – all fixed	2.80
Non-production overheads	
Variable	0.65
Fixed	1.70
	10.35

Actual production and sales during the quarter were as follows:

Production:	46,000 litres
Sales:	45,600 litres (at Rs. 12 per litre)

There was no finished inventory at the beginning of the period. Both fixed as well as variable costs were incurred as per the budget.

Required:

(a) Prepare a Profit Statement for the period using Absorption Costing. **08**

(b) Briefly explain the main difference between Absorption Costing and Marginal Costing and calculate the increase/decrease in profits if marginal costing was used instead of absorption costing. **06**

Q.2. Star Ltd has designed a new product **MLH**. Based on the current market, the price of **MLH** has been fixed at Rs. 200 per unit.

Cost of each unit of **MLH** has been estimated as under;

Direct Material:	5 kg at Rs. 12/kg. Loss in production is estimated at 10% of the material used
Direct Labour:	2 hours at Rs. 20 per hour.
Production overheads:	Rs. 25 per direct labour hour

Required:

(a) Expected Cost of Production. **02**

(b) Target Cost of Product if the Target Profit is 30% of Sales. **02**

(c) The Size of Cost Gap **02**

Contd. on back

Q.3. A company manufactures three products. Sales demand for the products in the next period is estimated as follows:

Product A	6,200 units
Product B	8,000 units
Product C	11,500 units

Selling prices and unit costs are estimated as under:

	Product A Rs.	**Product B Rs.**	**Product C Rs.**
Selling Price	9.70	11.10	13.80
Costs:			
Direct Materials	2.80	3.90	4.92
Direct Labour (Rs. 8 per hour)	2.40	2.40	3.20
Variable Overheads	0.90	0.90	1.20
Fixed Overheads	2.70	2.70	3.60

The company is experiencing a shortage of direct labour and estimates that a maximum of 8,500 labour hours will be available in the next period.

Required:

Determine the Production Schedule for the next period which will maximize profit. **14**

Q.4. A publisher makes an initial payment of Rs. 25,000 to authors for each accepted manuscript. Thereafter, royalty is paid at 15% of the net sales price of the books sold.

The net sales price of a book is the revenue received by the publisher which is the listed selling price of the book less the bookstore margin of 20% of the listed selling price.

A particular book has a listed selling price of Rs. 15. Costs incurred on the book by the publisher (excluding payments to the author) are:

	Rs.
Variable costs per copy	3.20
Total fixed costs	80,000

Required:

Calculate the number of copies of the book that need to be sold to allow the publisher to:

a) Break Even. **09**

b) Make a profit of Rs. 35,000. **03**

Q.5. Mars Limited (ML) operates an activity-based costing system and projected the following, for the next year.

Cost Pool	**Cost (Rs.)**	**Number of Drivers**
Production Set-ups	105,000	300 set-ups
Product Testing	300,000	1,500 tests
Component Supply and Storage	25,000	500 orders
Customer Orders and Deliveries	112,500	1,000 orders

The annual costs of production and general overheads which cannot be linked to any specific activity are estimated at Rs. 900,000 and these overheads are absorbed on a direct labour hour basis. Total direct labour hours for next year are estimated at 300,000 hours.

Contd......

ML is introducing a new product AB1. The projected cost and profit relating to AB1 is as follows:

Component Cost:	Rs. 1 per unit
Direct Labour:	10 minutes per unit at Rs. 7.80 per hour
Profit Mark up:	40% of total unit cost

During the next year, ML expects to receive 100 orders of 60 units per order and 60 orders of 50 units per order for Product AB1. 900 units would be produced in each production run. Four tests would be carried out during each production run to ensure that quality standards are maintained. Components would be purchased prior to each production run.

Required:

(a) Calculate the activity – based recovery rates for each cost pool. **04**

(b) Calculate the total unit cost and selling price of Product AB1. **09**

Q.6. The following information relates to Yazdan Motor Car Company for the year ended 31st December 2014 and 2013.

Operating Results	**2014**	**2013**
	Rs.	**Rs.**
Sales	5,930	4,096
Gross profit	570	272
Operating profit	470	184
Profit before taxation	496	180
Profit after taxation	270	110
Dividend	50	28
Profit retained	220	82
Capital employed:		
Share capital	170	142
Revenue reserves	580	334
Unappropriated profit	2	1
	752	477
Long term and deferred liabilities	842	12
	1,594	489
Represented by:		
Property, plant & equipment	124	100
Non current receivables	28	24
	152	124
Current Assets		
Stores & spares	24	26
Stock in trade	1,214	822
Trade debtors	48	36
Cash & bank	514	304
Other current assets	1,152	82
	2,952	1,270
Less: Current liabilities	1,510	905
Net current assets	1,442	365
Total Assets	1,594	489

Contd. on back

Required:

From the above information calculate the following for both the years:

- **(a)** Gross Profit Percentage **02**
- **(b)** Current Ratio **02**
- **(c)** Quick Ratio **02**
- **(d)** Debt Equity Ratio **02**
- **(e)** Inventory Turnover Ratio **02**
- **(f)** Debtor Days **02**

Q.7. The Capital employed at Division **A** of Moon Ltd is Rs. 2 million. Currently, the division earns a return on investment of 22%. It can make an additional investment of Rs. 500,000 for a 5 year life with nil residual value. The average net profit from this investment would be Rs. 48,000 per annum. Division **A**'s cost of capital is 14%.

Required:

Calculate Residual Income before and after additional investment. **07**

Q.8. A company manufacturing 'distempers' operates a Standard Costing System. The Standard Cost of one of its products is as follows:

Materials	Quantity	Standard Price Per kg	Total (Rs.)
A	40 kg.	Rs.75	3,000
B	10 kg.	Rs.50	500
C	50 kg.	Rs.20	1,000
Material Cost per unit (Total)			4,500

The Standard Input Mix is 100 kg. and the standard output of the finished product is 90 kg.

Actual output of the finished product was 420,000 kg. The actual consumption for the period was as follows:

A	240,000 kg	@ Rs. 80 / kg
B	40,000 kg	@ Rs. 52 / kg
C	220,000 kg	@ Rs. 21 / kg

Required:

Calculate the following Material Variances:

- **(a)** Cost Variance **04**
- **(b)** Price Variance **04**
- **(c)** Usage Variance **04**
- **(d)** Mix Variance **05**
- **(e)** Yield Variance **05**

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Summer Exam-2015

Corporate Sector

Bus. Com. & Beh. Studies (06.05.2015)

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

[Instructions]

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Attempt all Questions

Q.1. Rephrase the following sentences using the **"You"** attitude? **05**

1. To help us process this order, we must ask for another copy of the requisition.
2. We are pleased to announce our new flight schedule from Atlanta to New York, which is any hour on the hour.
3. We offer MP3 players with 50, 75, or 100 gigabytes of storage capacity.
4. You should never use that type of paper in the copy machine.
5. You must correct all five copies by noon.

Q.2. You are Manager Loan Department. You have received Rs. 2.5 million running finance loan request which you have to decline. Assume necessary details and draft a refusal letter? **10**

Q.3. Paraphrase the following passage taken from Raymond S. Nickerson's "How We Know and Sometimes Misjudge What Others Know: Imputing One's Own Knowledge to Others". **10**

> In order to communicate effectively with other people, one must have a reasonably accurate idea of what they do and do not know that is pertinent to the communication. Treating people as though they have knowledge that they do not have can result in miscommunication and perhaps embarrassment. On the other hand, a fundamental rule of conversation is that one generally does not convey to others information that one can assume they already have.

Q.4. Write an essay on **"Why should I be a good Responsible Citizen?"** **15**

Q.5. **(a)** How does Job Enrichment adds to the motivation of an employee? **05**

(b) What is meant by Attitude? What are its components? **05**

Q.6. Your Organization provides consultancy and training services in the area of Accounting, Finance and Human Resources along with providing different services of Accounts and Finance department as an outward agency. **10**

Write an unsolicited sales letter to introduce your products and services to the prospective corporate clients.

Contd. on back

Q.7.	Discuss Alderfer's ERG **"Theory of Motivation"**.	**08**
Q.8.	What are the characteristics and approaches of a **"Transformational Leader"?**	**07**
Q.9.	You are Director Training and Development. In your organization employee turnover rate is higher than industry average. You have been assigned the task to research the problem and submit a detailed formal report. Assume necessary details.	**15**
Q.10.	Define the following Financial Market Terminologies?	**10**

1. Ready Business
2. Bull
3. Bull Account
4. Off-Take
5. Glut

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Summer Exam-2015

Corporate Sector

Business Laws & Taxation (07.05.2015)

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

[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.
- **Use separate Answer Script for Taxation Paper.**
- **Start each question from fresh page.**

Attempt all Questions

Business Laws (70 Marks)

Q.1.		List down any four Rules of Precedent the Courts in Pakistan have to follow.	**06**
Q.2.	**a)**	What do you understand by the term Misrepresentation under Contract Act, 1872?	**02**
	b)	"Misrepresentation can be innocent or fraudulent". Discuss.	**04**
	c)	Examine the following situations and discuss the liability of Agent. Also mention the relevant rule of Agent's duties to Principal. **(i)** Ali (Agent) was directed by Bilal (Principal) to warehouse the goods at Custom bounded warehouse but Ali warehoused them at some private place and the goods were destroyed. **(ii)** Bilal (Principal) asked Ali (Agent) to buy a certain house for him. Ali tells Bilal that it cannot be bought and buys that house for himself.	**06**
Q.3.		Irfan agreed to sell two of his paintings to Faisal at a price to be fixed by Riaz. Riaz refused to fix the price. By that time Faisal has taken delivery of one painting. What option is available to Irfan? Also mention relevant provisions of Sale of Goods Act, 1930.	**04**
Q.4.	**a)**	Alpha Limited runs a family owned business. The CEO wants to increase the number of Board of Directors so that he can place his two sons in the Board. The present Board of Directors consists of 7 members and the election took place 2 years ago. You as a Company Secretary are required to guide CEO in the light of the relevant Legal Provisions.	**06**
	b)	Under what circumstances, election of Directors may be declared invalid?	**04**
Q.5.		Discuss the legal provisions relating to Notice of Annual General Meeting.	**04**
Q.6.	**a)**	Briefly describe the documents required to be filed with the Registrar for registration of a Private Limited Company.	**07**
	b)	AB Limited, a private company has been incorporated to provide security services to Financial Institutions. List additional requirements for filing documents with Registrar by AB Limited. You don't need to mention documents listed in **6(a)** above.	**03**

Contd. on back

Q.7. What do you understand by Legal Sources? Also list them down. **03**

Q.8. Examine each of the following cases and explain with reasons, obligation of partner for performance of contract. **05**

(a) Ali promises to deliver goods to Faisal on May 15, 2015 on payment of Rs. 25,000. Ali dies before May 15, 2015.

(b) Ali promises to paint a picture for Faisal by May 15, 2015, on payment of Rs. 100,000. Ali dies before May 15, 2015.

Q.9. Explain the term "Draft" under the provisions of Negotiable Instrument Act, 1881. **06**

Q.10. a) Explain the following terms with reference to election of Directors of a Listed Company. **07**

(i) Notice of Intention to offer for Election.

(ii) Withdrawal of Nomination Papers.

(iii) Notice of Contesting Candidates to Shareholders.

b) The AGM of Delta Limited was scheduled to be held on 31st December, 2014 at 9:30 a.m., however due to traffic jam in the surrounding of the place of the meeting, the required quorum was not present until 10:30 a.m. Discuss the legal provisions for holding this AGM. **03**

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Taxation (30 Marks)

Use separate Answer Script for this Paper

Q.1. (a) Define the following terms under the Income Tax Ordinance, 2001.

(i) Resident Company **03**

(ii) Filer and Non-Filer **02**

(b) Identify the various heads of Income under Income Tax Ordinance, 2001, and specify any five types of expenses which are not allowed as a deduction under the head Income from Business. **05**

Q.2. Mr. Ahmed, a salaried individual donated Rs. 1,800,000 to an approved non-profit organization during a tax year. His taxable income for the year amounted to Rs. 5,000,000 resulting in a gross tax liability of Rs. 1,022,500. **05**

Calculate the amount of tax credit.

Q.3. HS Associates has submitted the following data for the month of January 2015:

	Rs.
Local sales to registered person	6,000,000
Local sales to un-registered person	500,000
Exports	2,000,000
Exempt supplies	1,000,000
Purchases (registered supplier)	6,500,000
Purchases (un-registered supplier)	500,000
Imports	1,000,000

All the amounts are exclusive of Sales Tax.

Required:

Compute the sales tax liability for the month (Rate of tax is 17%). **08**

Q.4. Discuss the Rules relating to cancellation or return of supply and increase in the value of supply or sales tax amount under Sales Tax Act, 1990. **07**

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Summer Exam-2015

Corporate Sector

Financial Reporting (04.05.2015)

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

[Instructions]

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Attempt all Questions

Q.1. The Company X has entered into the following lease contracts with a lessor on start of current year.

a) A building was taken on lease for five years but the remaining life of building is 20 years. The other details of the lease are as under: -

i) The rentals are payable in advance and rental of first year is Rs. 10,000 and will increase by 20% per year on compound basis.

ii) The economic benefits expected from the building are evenly distributed over the five years.

iii) The building will revert back to the lessor at end of lease term.

b) A motor vehicle costing Rs. 2 million was taken on lease for five year, which is also the expected economic life of motor vehicle. The other terms and conditions are as under: -

i) The rental is payable in arrears.

ii) The interest rate implicit in the lease is 10.5% p.a.

iii) The vehicle will revert back at the end of lease term to lessor.

iv) The guaranteed residual value at the end of lease term is Rs. 100,000.

v) The expected residual value of asset at the end of useful life is Rs. 80,000.

Required:

Prepare the extracts to Financial Statements for the first year of lease. **15**

Q.2. Discuss the Accounting Treatment of following under IAS-8; **11**

a) The company has changed the method of depreciation from straight line to reducing balance at the end of current year.

b) The provision for doubtful debts has been changed from 5% to 4% of the closing balance.

c) The Costing Method of inventory from FIFO to Weighted Average in the current year.

d) The depreciation has been charged at 10% p.a. instead of 20% p.a. in the previous years.

e) The company has changed from Cost Method to Revaluation Method during the year.

Q.3. The Company has recently entered into the following transactions during the year and wants to recognize them as intangible assets under IAS-38.

a) The company has arranged an extensive training program for its employees and incurred cost of Rs. 1.5 millions on this activity. The training has resulted in marked improvements in the working of employees.

b) The company purchased licensed operating system from a multinational company costing Rs. 250,000. The cost of hardware on which operating system is installed is Rs. 4 million.

Contd. on back

c) The company has evolved a new production process during the year. The costs incurred on technical feasibility and identifying best alternatives were Rs. 500,000 and costs incurred on construction of pilot plant and trial run was Rs. 1,500,000.

Required:

Discuss the Accounting Treatment of above under IAS-38. **15**

Q.4. You have been recently appointed the Chief Accountant of a Listed Company and have been asked to assist the Auditors in the annual audit of the company. The audit trainee has given you the following list of outstanding points.

a) There has been sale of inventory after the year end at below cost price and inventory is appearing at cost in the Statement of Financial Position. When you enquired from the relevant staff then you came to know that a new competitor entered in the market after the year end because of which the inventory was sold at below the cost price.

b) The Company has not created a provision for a case pending before the honorable High Court, Karachi. You approached the legal advisor, who responded that an old employee of the company has filed this case being aggrieved because he was terminated in the last year. The legal advisor was of the opinion that there is remote chance that the claim will be awarded to him.

c) The Company has offered right shares to its shareholders after the year but the share capital has not been changed accordingly.

d) The company has not written off a debtor from its books even the said party has been declared bankrupt by the Honorable Court. When you enquired, you came to know that said debtor was considered good at the reporting date but after the year end a major fire broke out at his factory and destroyed everything.

e) Mr. Jamil is the major supplier of the raw material of your company but has not been disclosed as related party in the Financial Statements.

Required:

Discuss the Accounting Treatment of above in the Audited Financial Statements of the company. **15**

Q.5. Saud Limited (**SL**) has been acquired at the start of current year by Pakistan Feeds Limited (**PFL**), the relevant details at date of acquisition are as under: -

PFL paid the cost of investment as under: -

(i) Issued to the shareholders of **SL** its own one million shares, the fair value of one share of **PFL** is Rs. 25 per share;

(ii) **PFL** also agreed to pay Rs. 5 per share acquired after four years of acquisition; and

(iii) **PFL** will pay Rs. 8 per share after two years if the Basic EPS of **SL** has been at least Rs. 3 per share. The fair value of this consideration is Rs. 3 per share at acquisition date but by the reporting date has declined to Rs. 2 per share.

(iv) The discount rate company uses for present value calculation is 12% p.a.

(v) The **PFL** acquired 1 million shares of **SL**.

<u>**SL** has the following detail of net assets at the date of acquisition: -</u>

(i) Share capital of **SL** consists of 1.25 million shares of Rs. 10 each and reserves of Rs. 15.7 million based at book value of net assets.

(ii) The fair value adjustments at date of acquisition are as under: -

Name of Asset	Carrying Value	Fair Value	Useful Life	Exist on subsequent reporting date
	Rs. (m)	**Rs. (m)**		
Land	0.50	0.75	--	Yes
Plant	0.60	0.65	5	Yes
Inventory	0.65	0.57	--	No
Provisions	0.55	0.65	--	No

(iii) The fair value per share of **SL** at date of acquisition is Rs. 17 per share.

(iv) The fair values adjustments relating to above items have not been recorded in **SL**'s separate Financial Statements.

Reporting date information is as under: -

- The **PFL** has brought forward earnings from previous year Rs. 32 million and current year profit is Rs. 3.2 million before any adjustments relating to **SL** acquisition.
- **SL** has total retained earnings at the year end of Rs. 18.5 million. **SL** has declared dividend of 25 paisa per share after the date of acquisition from post acquisition profits.
- Intra group trading during the year amounted to Rs. 2.5 million of which stock worth Rs. 0.5 million relating to sales from **PFL** lying with **SL**. The intra group transactions are at cost plus 25% markup.
- 25% of goodwill has impaired by current reporting date.

Required:

a) Calculate goodwill at the date of acquisition and at the reporting date. **07**

b) Non-controlling Interest (NCI) at date of acquisition and reporting date. **07**

c) Consolidated Retained Earnings at the reporting date. **08**

Q.6. The Company **Y** has made the following transactions during the year but is not sure how to account for under International Financial Reporting Standards.

a) The company has decided to close one of its operation located at countryside, the said closure will result in termination of employees and cancellation of certain customers and supplier contracts. The employees will be paid Rs. 1.5 million in excess of their post employment benefits. The cancellation of customer and supplier contracts will require penalties amounting to Rs. 2 million.

b) The company has entered into a contract to purchase a plant from a foreign supplier amounting to Rs. 1.5 million. The plant will be delivered after six months of the current year end.

c) The company sustained a loss of Rs. 1 million during the year on the goods supplied by another company. The company filed the case against the supplier for recovery of the loss incurred. The legal advisor confirmed that there is a probable chance that the case will be decided in the favor of the company; however, the decision is pending before the Honorable High Court.

Required:

Discuss the Accounting Treatment of above in the Financial Statement of the company. **12**

Contd. on back

Q.7. XML company has started the construction of a qualifying asset. Expenses incurred on the qualifying asset during the year ended December 31, 2014 and detail of loans obtained is as under:-

i) The detail of loans obtained are as under;-

Date of loan taken	**Loan amount (Rs. 000)**	**Rate of interest %**
01-01-2013	100,000	12.50
01-07-2013	50,000	13.50
01-01-2014	450,000	11.75
30-06-2014	50,000	12.50

ii) The expenses incurred on the asset during the year are as under: -

Date	**Amount Rs. (000)**
01-04-2014	14,500
01-05-2014	10,250
01-06-2014	12,500
16-07-2014	25,000
31-08-2014	12,000
31-10-2014	18,000
30-11-2014	5,550

iii) Loan taken during the year is specifically raised to finance the construction of qualifying asset. The excess funds can be invested at the rate of 5.5%.

Required:

Calculate the Borrowing Cost to be capitalized. **10**

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Summer Exam-2015

Corporate Sector

Management Accounting (05.05.2015)

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

[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. Anum Ltd. manufactures ball points of different designs. The Company uses their own material for the manufacturing of ball point. The ballpoints were sold in a box of 6. Each Box would be sold at selling price of Rs.12. The Company has incurred the following costs:

	Rs.
Variable cost	9/Unit
Total Fixed Cost	120,000

The Company has expected budgeted sales of 900 units a month.

Required:

(i) Calculate the Breakeven Sales in Units. **03**

(ii) Calculate the Breakeven Sales in Revenue. **02**

Q.2. The Hi Life Co. (**HL** Co.) makes sofas. It has recently received a request from a customer to provide a one-off order of sofas, in excess of normal budgeted production. The order would need to be completed within two weeks. The following cost estimate has already been prepared:

Direct Material:		**Note**	**Rs.**
Fabric	200 m^2 at Rs.17 per m^2	**1**	3,400
Wood	50 m at Rs. 8.20 per m^2	**2**	410
Direct Labour:			
Skilled	200 hours at Rs.16 per hour	**3**	3,200
Semi-Skilled	300 hours at Rs.12 per hour	**4**	3,600
Factory Overheads	500 hours at Rs. 3 per hour	**5**	1,500
Total Production Cost			12,110
Administrative Overheads at 10% of total production cost			1,211
Total Cost			13,321

Notes:

1. The fabric is regularly used by **HL** Co. There are currently 300 meter in inventory, which cost Rs. 17 per meter. The current purchase price of the fabric is Rs. 17.50 per meter.
2. This type of wood is regularly used by **HL** Co. and usually costs Rs. 8.20 per meter. 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 meter. **HL** Co. already has 500 meter in inventory but 480 meter of this is needed to complete other existing orders in the next two weeks. The remaining 20 meter is not going to be needed until four weeks' time.

Contd. on back

3. The skilled labour force is employed under permanent contracts of employment under which they must be paid for 40 hours' per week's labour, even if their time is idle due to absence of orders. Their rate of pay is Rs.16 per hour, although any overtime is paid at time and a half. In the next two weeks, there is spare capacity of 150 labour hours.
4. There is no spare capacity for semi-skilled workers. They are currently paid Rs. 12 per hour or time and a half for overtime. However, a local agency can provide additional semi-skilled workers for Rs.14 per hour.
5. The Rs. 3 absorption rate is HL Co's standard factory overhead absorption rate; Rs. 1.50 per hour reflects the cost of the factory supervisor's salary and the other Rs. 1.50 per hour reflects general factory costs. The supervisor is paid an annual salary and is also paid Rs. 15 per hour for any overtime he works. He will need to work 20 hours' overtime if this order is accepted.
6. This is an apportionment of the general administration overheads incurred by HL Co.

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**

Q3. Gam Co. sells electronic equipment and is about to launch a new product onto the market. It needs to prepare its budget for the coming year and is trying to decide whether to launch the product at a price of Rs. 30 or Rs. 35 per unit. The following information has been obtained from market research:

Sale price Rs. 30		Sale price Rs. 35	
Sales Volume	**Probability**	**Sales Volume**	**Probability**
120,000	0.4	108,000	0.3
110,000	0.5	100,000	0.3
140,000	0.1	94,000	0.4

Notes:

1. Variable production costs would be Rs. 12 per unit for production volumes up to and including 100,000 units each year. However, if production exceeds 100,000 units each year, the variable production cost per unit would fall to Rs. 11 for all units produced.
2. Advertising costs would be Rs. 900,000 per annum at a selling price of Rs. 30 and Rs. 970,000 per annum at a price of Rs. 35.
3. Fixed production costs would be Rs. 450,000 per annum.

Required:

(a) Calculate each of the six possible profit outcomes which could arise for Gam Co. in the coming year. **08**

(b) Calculate the expected value of profit for each of the two price options and recommend, on this basis, which option Gam Co. would choose **03**

(c) Briefly explain the maximum decision rule and identify which price should be chosen by management if they use this rule to decide which price should be charged. **03**

(d) Discuss the factors which may give rise to uncertainty when setting budgets. **06**

Contd......

Q4. **HY** Corporation has obtained following data pertaining to one of its material:

Working days per year	360 days
Normal use per day	500 units
Maximum use per day	800 units
Minimum use per day	100 units
Lead time	6 days
Variable cost of placing one order	Rs. 40
Variable carrying cost per units per year	Re.1

Required:

(a) Economic Order Quantity **02**

(b) Safety Stock Minimum **02**

(c) Order Point **02**

(d) Normal Maximum Inventory **02**

(e) Absolute Maximum Inventory **02**

Q.5. A company is considering two capital expenditure proposals. Both proposals are for similar products and both are expected to operate for four years. Only one proposal can be accepted.

The following information is available:

	Profit/Loss	
	Proposal A	**Proposal B**
	(Rs.)	**(Rs.)**
Initial Investment	46,000	46,000
Year l	6,500	4,500
Year 2	3,500	2,500
Year 3	13,500	4,500
Year 4	(1,500)	14,500
Estimated scrap value at the end of year 4	4,000	4,000

Depreciation is charged on the Straight Line basis. The company estimates its cost of capital at 20% pa.

Required:

(a) Calculate the following for both proposals:

i) The Payback Period to one decimal place **05**

ii) The Return on Capital Employed on Average **04**

(b) Give three advantages for each of the methods of appraisal used in **(a)** above. **06**

Contd……

Q.6. Mezen is currently considering the launch of a new product. A market survey was recently commissioned to assess the likely demand for the product and this showed that the product has an expected life of four years. The survey cost Rs. 30,000 and this is due for payment in four months' time. On the basis of the survey information as well as internal management accounting information relating to costs, the Assistant Accountant prepared the following profit forecasts for the product.

Year	**1**	**2**	**3**	**4**
	Rs.(000)	**Rs.(000)**	**Rs.(000)**	**Rs.(000)**
Sales	180	200	160	120
Cost of sales	(115)	(140)	(110)	(85)
Gross profit	65	60	50	35
Variable overheads	(27)	(30)	(24)	(18)
Fixed overheads	(25)	(25)	(25)	(25)
Market survey written off	(30)	–	–	–
Net profit/(loss)	(17)	5	1	(8)

These profit forecasts were viewed with disappointment by the Directors and there was a general feeling that the new product should not be launched. The Chief Executive pointed out that the product achieved profits in only two years of its four-year life and that over the four-year period as a whole, a net loss was expected. However, before a meeting that had been arranged to decide formally the future of the product, the following additional information became available:

- The new product will require the use of an existing machine. This has a written down value of Rs. 80,000 but could be sold for Rs. 70,000 immediately if the new product is not launched. If the product is launched, it will be sold at the end of the four-year period for Rs. 10,000.
- Additional working capital of Rs. 20,000 will be required immediately and will be needed over the four-year period. It will be released at the end of the period.
- The fixed overheads include a figure of Rs. 15,000 per year for depreciation of the machine and Rs. 5,000 per year for the re-allocation of existing overheads of the business. The company has a cost of capital of 10%. Ignore Taxation.

Required:

(a) Calculate the Net Present Value of the new product. **10**

(b) Calculate the approximate Internal Rate of Return of the product. **05**

(c) Outline the Strengths and Weaknesses of the Internal Rate of Return Method as a basis for Investment Appraisal. **05**

Q.7. What are the different methods to hedge Interest Rate Risk? **05**

Q.8. The following data relates to the ordinary shares of Stilton:

Current Market Price, 31 December 20X1	Rs. 250
Dividend per share, 20X1	Rs. 3
Expected Growth Rate in dividends and earnings	10% p.a.
Average Market Return	8%
Risk-Free Rate of Return	5%
Beta factor of Stilton equity shares	1.40

Required:

(a) Calculate the estimated Cost of Equity using the Capital Asset Pricing Model? **03**

(b) Calculate the estimated Cost of Equity using the Dividend Growth Model? **04**

(c) Briefly explain what total return is and how wealth of shareholder can be increased? **03**

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Summer Exam-2015

Corporate Sector

Auditing (06.05.2015)

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

[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. You have recently joined ABC Chartered Accountants as an Audit Manager. One of your roles and responsibilities in addition to handling various audits is also the training and development of the audit staff. Your Partner has recently called you to discuss the importance of remaining alert to the existence of fraud in audit clients.

He has asked you to prepare a comprehensive presentation for the audit staff of ABC. As part of the preparation, describe what should be included in the presentation material in relation to the following:

(a) What is fraud and its types as stipulated in International Standard on Auditing (ISA) 240? **05**

(b) What are the Auditor's responsibilities in relation to fraud in an independent audit of Financial Statements? **07**

Q.2. You are conducting the audit of Pak Pharmaceuticals Limited which is engaged in the manufacture and sale of various pharmaceutical products. The pharmaceutical industry is highly regulated and the company is required to comply with many health and safety regulations. As the Audit Manager for the last two years for this audit client, you understand that the company is exposed to several litigation cases pending at various Courts of Law across Pakistan. The management's stance is that they have a fair chance of winning the cases filed against them. However, some companies in the industry have recently been charged with penalties for use of harmful substances and chemicals in excess of the allowed amount in their medicines. **15**

Prepare an audit plan for the performance of substantive procedures on provisions and contingent liabilities of Pak Pharmaceuticals.

Q.3. (a) Identify five accounts in the Financial Statements which require the use of estimation and judgment. **05**

(b) What are the roles and responsibilities of the auditor in relation to the audit of Accounting Estimates? **08**

Q.4. The Village School Network is a chain of 100 schools engaged in imparting primary level education to several thousand students in various villages of Pakistan. The company's major expense is salary paid to teachers. **14**

Some teachers at senior level are paid a fixed salary per month while most teachers are paid based on number of hours taught by them in each month. A daily attendance and Time In and Time Out register is maintained to record the total number of hours taught by each teacher at each school. Special reward in the form of bonus is also paid out to teachers who display exceptional results. The bonus is usually a multiple of monthly salary depending on the result achieved.

Briefly describe the controls you would expect to operate in relation to the Salaries and Wages System of the Village School Network.

Contd. on back

Q.5. An auditor is required to maintain an attitude of 'Professional Skepticism' while conducting an audit of Financial Statements. As part of the prerequisites for an auditor, it is also required that the Auditor is 'independent' from the management and shareholders of the company being audited.

(a) Describe by giving TWO appropriate examples, the term Professional Skepticism. **07**

(b) Describe the term Independence in the context of an audit of Financial Statements, distinguishing between 'Independence of Mind' and 'Independence in Appearance', by giving appropriate examples in an audit situation. **06**

Q.6. Mr. Dawood is the newly appointed Director of Fateh Fashion Textiles and is the son of the CEO, Mr. Abdul Fateh who owns 70% shares of the company. Mr. Dawood has joined the company after recently completing his business management studies and is interested to find out about various aspects of the company and the way it operates. You have been working in Fateh Fashion Textile as the Internal Auditor, for the last three years. In a recent meeting, he has asked you the following questions:

(a) If we have hired a qualified Chartered Accountant such as you, as the head of Internal Audit Department and you review the work of the Finance Department all through the year, why do we need to have an External Audit done? Is there a difference between Internal Audit and External Audit? **10**

(b) Do International Standards allow the External Auditor to use the work of Internal Auditor when performing his independent audit of the Financial Statements? What procedures should the External Auditor follow if he decides to use the work of Internal Auditor? **08**

Respond to the above questions from Mr. Dawood.

Q.7. Fresh & Juicy is a famous chain of burgers spread all over Pakistan. The company specializes in chicken burgers and its combo meals are famous across Pakistan for quantity and value for money. Recently, there have been news reports that fast food restaurants are adopting unhygienic practices in processing chicken. The Food Regulatory Authority has inspected some restaurants and found standards of quality and cleanliness much below the required quality standards. In response to the above, Fresh & Juicy has run a TV commercial stating that all food items used in their meals are processed using the highest standards of quality and there is no issue with regard to cleanliness or quality of chicken.

You are the auditor responsible for planning the audit of Fresh & Juicy; there are still 2 weeks before the end of the year (31^{st} March 2015) for which you have been engaged on the audit.

(a) As part of your risk assessment for the audit of Fresh & Juicy, state what procedures would you perform at the planning stage considering the above situation and what areas of the Financial Statements would be most risky? **07**

(b) Assume you have now completed a significant part of the audit and it is now 15 May 2015. It has been brought to your knowledge that the company has received a Penalty Notice from the Food Regulatory Authority of Rs. 50 million for violation of hygiene standards. What procedures would you now perform to evaluate the amounts and disclosures in the Financial Statements and what could be the possible implications on the audit report? **08**

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